GOVERNANCE MECHANISMS, FAMILY DYNAMICS, AND SUSTAINED PERFORMANCE: INSIGHTS FROM FAMILY FIRMS

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OPEN ACCESS

How to cite this paper: Trebicka, B., & Tartaraj, A. (2023). Governance mechanisms, family dynamics, and sustained performance: Insights from family firms [Special issue]. *Corporate Governance and Organizational Behavior Review, 7*(4), 334–341.
https://doi.org/10.22495/cgobrv7i4sip11

ISSN Online: 2521-1889
ISSN Print: 2521-1870

Received: 25.05.2023
Accepted: 07.12.2023

JEL Classification: G32, G34, L26, M13
DOI: 10.22495/cgobrv7i4sip11

Abstract

This study investigates governance dynamics in family firms, examining the relationship between governance mechanisms, family dynamics, and sustained performance. Combining qualitative interviews and a survey of 242 family firms, we tested hypotheses involving effective governance mechanisms, well-managed family dynamics, adoption of best practices, and successful challenge navigation. Findings supported these hypotheses. Family firms with effective governance showed better-sustained performance. Managed family dynamics correlated with improved governance outcomes. Adoption of best practices aligned with enhanced financial performance, reduced agency conflicts, and improved access to resources. Successful challenge navigation was associated with greater long-term sustainability and success. The results provide actionable insights for family firms, highlighting the importance of governance strategies. Future research could explore specific governance mechanisms' impacts and the role of family culture. This study contributes to understanding governance dynamics' influence on family firm performance, offering guidance for effective governance in family-owned businesses. Beyond practical insights, this study holds theoretical implications, advancing our comprehension of the intricate interplay between governance, family dynamics, and performance in family firms (Camisón-Zornoza et al., 2020; Gómez-Mejia et al., 2011).

Keywords: Corporate Governance, Family Firms, Governance Dynamics, Governance Mechanisms, Success Factors

Authors' individual contribution: Conceptualization — B.T.; Methodology — B.T.; Validation — A.T.; Formal Analysis — B.T. and A.T.; Investigation — A.T.; Resources — A.T.; Writing — Original Draft — B.T. and A.T.; Writing — Review & Editing — B.T.; Visualization — B.T. and A.T.; Supervision — B.T.

Declaration of conflicting interests: The Authors declare that there is no conflict of interest.

1. INTRODUCTION

Family businesses have a substantial impact on the worldwide economy, contributing significantly to employment opportunities and economic growth (Camisón-Zornoza et al., 2020; Lemennicier et al., 2019). Nevertheless, due to their distinctive features and dynamics, these enterprises necessitate a specific focus on their governance strategies. The significance of corporate governance in family firms is undeniable, as it profoundly affects their long-term viability, operational performance, and the seamless continuation of family involvement (Stock et al., 2023). Implementing effective governance mechanisms is vital to ensure well-informed decision-making, strategic development, and transparent operations within family-owned businesses (Schulze et al., 2001).

The significance of corporate governance in family firms stems from the potential pitfalls and challenges they face. Without strong governance frameworks, family-owned enterprises may encounter challenges such as favoritism, inadequate accountability, and inadequate strategic planning, which can hamper their growth and sustainability (Gómez-Mejia et al., 2007). These challenges are often exacerbated by the intertwining of family and business interests, creating a complex governance environment that necessitates careful attention.

By implementing effective governance mechanisms, family firms can enhance their transparency, professionalism, and adaptability, leading to improved performance and ensuring the sustainable success of both the enterprise and the family unit. Proper corporate governance practices can help mitigate conflicts of interest, promote fairness and equity, and foster a culture of innovation and entrepreneurship within family firms. Moreover, robust governance structures can also contribute to attracting external investors, strengthening the firm's reputation, and facilitating the transition across generations.

The primary objectives of this study encompass exploring pivotal governance mechanisms and practices within family businesses, scrutinizing how family dynamics influence corporate governance in such firms, identifying the pivotal success factors and best practices in corporate governance that enhance the sustained performance of family firms, and shedding light on the specific challenges and intricacies inherent to corporate governance within this context (Miller et al., 2007). Understanding these aspects is crucial for both researchers and practitioners fostering a comprehensive grasp of corporate governance dynamics within family-owned enterprises and offering actionable insights to family business proprietors.

Through a comprehensive literature review, this paper aims to enhance comprehension of corporate governance in family firms and offer pragmatic insights for family business owners and practitioners. By analyzing existing research and synthesizing key findings, this study seeks to shed light on the governance mechanisms that are particularly relevant in the context of family firms, explore the influence of family interactions on governance practices, and identify the success factors and best practices that can lead to improved governance and sustained performance in family-owned businesses. The findings of this paper will not only enrich the academic literature on corporate governance but also offer valuable guidance for family business owners and practitioners seeking to navigate the complexities of governance in their organizations.

In summary, the governance dynamics in family firms are critical for their long-term success and sustainability. This paper aims to deepen the understanding of corporate governance practices in family-owned businesses by examining key mechanisms, exploring the impact of family dynamics, identifying factors contributing to success, and addressing the specific obstacles that family firms face. By doing so, this research endeavors to provide practical insights that can guide family business owners and practitioners in developing effective governance strategies and contributing to the continued growth and prosperity of family firms.

The paper is structured as follows. Section 1 provides a background and underscores the importance of corporate governance in family enterprises. It also outlines the objectives of the paper and presents the research questions. Section 2 examines the key governance mechanisms, explores the influence of family interactions, and identifies factors contributing to success and best practices in corporate governance for family enterprises. Section 3 outlines the research design, data collection methods, sample size considerations, and sample selection. Section 4 presents the findings and provides an analysis and interpretation of the literature. Finally, Section 5 summarizes the key findings and insights, discusses the practical implications for family firms, and suggests future research directions.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Family firms are enterprises in which the controlling ownership and management are concentrated within a single family or a network of interconnected families (Stock et al., 2023). They are characterized by the intersection of family and business systems, with family members playing a significant role in decision-making and management. Family firms often exhibit distinct characteristics, such as a long-term orientation, commitment to legacy, and a unique blend of family and business values (Zahra et al., 2008).

Corporate governance in family firms is important for ensuring efficient decision-making, openness, and safeguarding the interests of various stakeholders (Miller et al., 2007). It helps balance family dynamics and business interests, promoting sustainable growth and performance. Effective governance practices in family enterprises enhance financial performance, minimize agency disagreements, and better access to resources and capital markets (Schulze et al., 2001).

By understanding the definition and characteristics of family enterprises and recognizing the significance of corporate governance, this paper provides insights into the distinct governance dynamics in family enterprises and their ramifications for sustained success and performance.

- Governance mechanisms in family firms:

1. *Role and composition of boards.* The board of directors in family firms holds a vital position in governance, consisting of both family and non-family individuals to ensure a mix of skills and impartial viewpoints (Alleyne & Thompson, 2019). An effective board composition, with a balance of family representation and outside directors, helps mitigate conflicts of interest and enhances decision-making processes.

2. *Family councils and their functions.* Family councils, whether in a formal or informal capacity within family enterprises, play a crucial role in promoting communication, coordination, and decision-making among family members (Ramadani

et al., 2020). They provide a platform for discussing family and business matters, succession planning, and establishing family governance policies. Family councils contribute to enhancing family cohesion and help harmonize family goals with business aims.

3. *Separation of ownership and management.* The distinction between ownership and management in family enterprises is essential for effective governance (Ghafoor et al., 2023). It involves delineating the roles and responsibilities of family owners and professional managers. By separating ownership and management, family enterprises can enhance decision-making processes, improve accountability, and promote the professionalization of the management team.

4. *Succession planning and leadership development.* Succession planning is a critical governance mechanism in family firms, ensuring a seamless leadership transition from one generation to the succeeding one (Zellweger et al., 2013). It involves identifying and preparing potential successors and establishing a structured process for leadership succession. Leadership development programs contribute to the growth and development of future leaders, equipping them with the necessary skills and capabilities to lead the family firm successfully.

- Impact of family dynamics on corporate governance:

1. *Balancing family and business interests.* Achieving equilibrium between family interests and business goals stands as a central challenge in family firms' governance (Bettinelli et al., 2022; Kárpáti et al., 2023). Family dynamics, like rivalries among siblings or conflicting interests, can add complexity to governance deliberations. It is crucial to establish mechanisms that promote fairness, transparency, and inclusiveness in decision-making. This necessitates a mindful integration of family values and the enduring viability of the business.

2. *Impact of family values and culture.* Governance practices within family firms are profoundly shaped by their distinct set of values and culture (Miller & Le Breton-Miller, 2021). These enterprises often integrate their values into the fabric of governance frameworks, harmonizing operational choices with their fundamental principles. Robust family cultures have the potential to cultivate a collective identity, a common vision, and a forward-looking mindset. Nevertheless, it is essential to strike a balance between upholding familiar traditions and embracing the infusion of professionalism and external viewpoints in governance mechanisms remains pivotal.

3. *Communication and decision-making processes.* Effective communication and decision-making processes are vital for governance in family firms (Gómez-Mejía et al., 2023). Open and transparent communication channels facilitate the exchange of information, fostering trust and understanding among family members and other stakeholders (Cano-Rubio, 2016). Family firms should establish clear decision-making processes that promote inclusiveness, accountability, and the integration of diverse perspectives.

- Success factors and best practices in corporate governance:

1. *Transparent communication channels.* Transparent communication channels are essential for effective governance in family firms (Gómez-Mejía et al., 2023). Open and honest communication promotes trust, reduces misunderstandings, and facilitates the resolution of conflicts (Du et al., 2023). Family firms should establish clear channels for sharing information, discussing important matters, and addressing concerns.

2. *Professionalizing governance practices.* Professionalizing governance practices involves adopting formal structures, processes, and systems to enhance governance effectiveness (Combs et al., 2020). Family firms can benefit from implementing professional governance mechanisms, such as clear roles and responsibilities, performance evaluations, and governance training programs. Professionalization helps ensure objectivity, accountability, and the application of best practices in decision-making and oversight.

One essential aspect of professionalizing governance practices in family firms is establishing clear roles and responsibilities for family members, executives, and independent directors. Defining these roles helps avoid ambiguity and conflicts of interest, enabling more effective decision-making processes and accountability (Li et al., 2020). For example, delineating the responsibilities of family members as owners or managers and establishing the criteria for board membership can help maintain a separation between family and business roles, ensuring that qualified individuals are appointed to key governance positions (Debellis et al., 2023).

3. *Ownership structures and management control mechanisms.* Ownership structures and management control mechanisms play a significant role in shaping governance practices within family firms (Fan & Leung, 2020). Family firms often utilize specific mechanisms, like dual-class share arrangements or trusts, to strike a balance between family control and the involvement of professional managers. These ownership structures have important implications for making decisions, distributing power, and planning for succession within the firm.

In addition to ownership structures, the examination of family offices or other entities responsible for managing family wealth and assets can provide valuable insights into the integration of family and business governance (Deferne et al., 2023). Family offices often serve as central hubs for coordinating various aspects of family wealth management, including investment decisions, financial planning, and estate planning. Understanding the roles and dynamics of these entities sheds light on how family and business governance intersect and how they enhance the overall governance framework of the family enterprises.

By exploring ownership structures and management control mechanisms, researchers and practitioners can gain a deeper understanding of how these factors shape governance practices in family firms. Such insights help identify effective approaches to balancing family influence and professional management, ensuring smooth decision-making processes, and facilitating successful intergenerational transitions.

4. *Succession planning and leadership development.* Successful succession planning and leadership development are vital factors for

achieving success in family firm governance (Gómez-Mejía et al., 2023). Family enterprises should implement systematic processes for identifying and developing successors, ensuring a pipeline of capable leaders. Leadership development programs should focus on enhancing skills, fostering a long-term perspective, and preparing future leaders for the unique challenges of family firm governance.

• Challenges and complexities in corporate governance of family businesses:

1. *The intertwining of family and business interests.* The intertwining of family and business interests poses complexities in family firm governance (Chrisman et al., 2018). Balancing the needs and aspirations of the family with the strategic goals of the business can be complex. Family firms must establish mechanisms that enable effective decision-making while considering the impact on family relationships and harmony.

2. *Managing conflicts of interest.* Conflicts of interest are inherent in family firm governance (Zellweger et al., 2013). Family members may have personal or financial interests that differ from the best interests of the business. Governance mechanisms should address these conflicts by establishing clear guidelines, ensuring transparency, and promoting fair and equitable decision-making processes.

3. *Navigating generational transitions.* Generational transitions present challenges in family firm governance (Camisón-Zornoza et al., 2020). Handing over leadership and ownership to the next generation requires careful planning, open communication, and addressing potential conflicts among family members. The governance structure should support a smooth transition by establishing clear criteria, processes, and timelines for succession.

4. *Maintaining a culture of innovation and entrepreneurship.* Family firms face the challenge of maintaining a culture of innovation and entrepreneurship while preserving family traditions (Arzubiaga et al., 2019). Governance mechanisms should support and incentivize risk-taking, creativity, and continuous learning. Family firms need to achieve equilibrium while preserving family values and embracing change to ensure long-term growth and competitiveness.

By comprehending and tackling these governance mechanisms, obstacles, and dynamics, family firms can improve their governance approaches and promote their enduring sustainability and achievement.

In alignment with the literature overview, the subsequent hypotheses will be subjected to examination:

H1: Family firms that employ effective governance mechanisms and practices will exhibit higher levels of sustained performance compared to those with ineffective governance mechanisms.

H2: Family dynamics significantly influence the corporate governance practices in family firms, and family firms that effectively manage family dynamics will demonstrate better governance outcomes compared to those that struggle with family dynamics.

H3: Family firms that adopt and implement best practices in corporate governance will experience improved financial performance, reduced agency conflicts, and better access to resources and capital markets compared to those that do not prioritize best governance practices.

H4: Family firms that face and successfully navigate the challenges and complexities specific to corporate governance in family firms will demonstrate greater long-term sustainability and success compared to those that fail to address these challenges effectively.

3. RESEARCH METHODOLOGY

3.1. Research design

This study adopts a quantitative research design to examine the key governance mechanisms and practices in family firms, investigate the impact of family dynamics on corporate governance, identify success factors and best practices in corporate governance, and highlight the challenges and complexities specific to corporate governance in family firms. Drawing inspiration from established research methodologies, the investigation is grounded in a well-defined conceptual framework that aligns with existing theories of corporate governance in family firms (Camisón-Zornoza et al., 2020; Fernándes-Roka & Gutiérrez Hidalgo, 2017).

3.2. Data collection

Data for this study will be collected through a structured survey questionnaire administered to family firms. The questionnaire will include items related to governance mechanisms, family dynamics, success factors, challenges, and performance indicators (Zahra et al., 2008). The questionnaire is meticulously crafted by adapting validated scales from relevant literature (Schulze et al., 2001; Gómez-Mejia et al., 2011). To ensure the contextual relevance to family firms, specific modifications are introduced in consultation with experts in the field.

3.3. Sample size

The sample size for this study will be determined based on the recommended sample size per group calculated using a formula for a two-sample comparison of proportions (Thompson, 2006). Assuming a confidence level of 95%, power of 80%, and effect size of 0.3, a sample size of 121 participants per group will be targeted.

3.4. Sample selection

The target population comprises family firms within a specific industry or region. Utilizing purposive sampling techniques, participants are identified through industry associations, business directories, and professional networks (Yin, 2017). Inclusion criteria encompass family firm owners, executives, or board members to ensure a comprehensive representation of the target population.

3.5. Data analysis

The collected data will be analyzed using appropriate statistical techniques. Descriptive statistics will be employed to summarize the characteristics of the sample, governance mechanisms, family dynamics, and other variables of interest. Inferential statistics such as t-tests are employed to examine relationships, test hypotheses, and draw substantive conclusions (Hair et al., 2019). The significance level is set at $p < 0.05$.

4. RESULTS AND DISCUSSION

4.1. Overview of the sample

The sample for this study consisted of two groups of family firms, each with a sample size of 121 participants. Group 1 represents family firms that employ effective governance mechanisms and practices, while Group 2 comprises family firms with ineffective governance mechanisms. The participants were owners, executives, or board members of the selected family firms.

4.2. Descriptive statistics

Governance mechanisms and practices. The descriptive analysis revealed that family firms in Group 1 reported a higher adoption and implementation of effective governance mechanisms compared to those in Group 2. These mechanisms included a well-balanced board composition with a mix of family and non-family members, the establishment of formal family councils, and the separation of ownership and management roles.

Family dynamics. The analysis of family dynamics indicated that family firms in Group 1 demonstrated better management of family dynamics compared to Group 2. Group 1 reported higher levels of communication, collaboration, and conflict resolution among family members involved in the business. In contrast, Group 2 experienced challenges in balancing family interests with business objectives and resolving conflicts.

Success factors in corporate governance. The findings revealed that family firms in Group 1 exhibited a higher adoption of success factors in corporate governance compared to Group 2. These factors included transparent communication channels, professionalized governance practices, well-defined ownership structures, and robust succession planning and leadership development programs.

4.3. Inferential statistics

To test *H1*, the sample of family firms was divided into two groups: Group 1 consisted of family firms with effective governance mechanisms, while Group 2 included family firms with ineffective governance mechanisms. The sustained performance of each group was measured and compared.

Table 1. Sustained performance in family firms with effective and ineffective governance mechanisms (*H1*)

Group	*Mean*	*Std. dev.*	*t-value*	*p-value*
Effective governance (Group 1)	3.99	0.79	2.39	< 0.05
Ineffective governance (Group 2)	3.38	0.93		

Note: Significant at the 0.05 level.
Source: Authors' estimation.

Table 1 displays the results of the comparison between Group 1 and Group 2. The mean sustained performance for Group 1 was 3.99, while for Group 2, it was 3.38. The t-test analysis revealed a significant difference ($t = 2.39$, $p < 0.05$), supporting *H1*. These findings suggest that family firms with effective governance mechanisms tend to exhibit higher levels of sustained performance compared to those with ineffective governance mechanisms.

To examine *H2*, the sample was divided into two groups based on the management of family dynamics: Group 1 consisted of family firms that effectively managed family dynamics, while Group 2 included family firms that struggled with family dynamics. The governance outcomes of each group were measured and compared.

Table 2. Governance outcomes in family firms with effective and ineffective management of family dynamics (*H2*)

Group	*Mean*	*Std. dev.*	*t-value*	*p-value*
Effective management (Group 1)	3.87	0.78	3.12	< 0.01
Ineffective management (Group 2)	3.07	0.92		

Note: Significant at the 0.01 level.
Source: Authors' estimation.

Table 2 presents the results of the comparison between Group 1 and Group 2. The mean governance outcomes for Group 1 were significantly higher (mean = 3.87) compared to Group 2 (mean = 3.07). The t-test analysis confirmed a significant difference ($t = 3.12$, $p < 0.01$), supporting *H2*. These findings indicate that family firms that effectively manage family dynamics tend to demonstrate better governance outcomes compared to those that struggle with family dynamics.

To test *H3*, the sample was divided into two groups: Group 1 consisted of family firms that adopted and implemented best practices in corporate governance, while Group 2 comprised family firms that did not prioritize best governance practices. The financial performance, agency conflicts, and access to resources and capital markets were assessed and compared.

Table 3. Financial performance and agency conflicts in family firms with and without best governance practices (*H3*)

Group	*Mean*	*Std. dev.*	*t-value*	*p-value*
Best practices (Group 1)	4.12	0.67	3.76	< 0.001
No best practices (Group 2)	3.53	0.94		

Note: Significant at the 0.001 level.
Source: Authors' estimation.

Table 3 presents the results of the comparison between Group 1 and Group 2. The mean financial performance for Group 1 was significantly higher (mean = 4.12) compared to Group 2 (mean = 3.53). Additionally, Group 1 exhibited reduced agency conflicts and better access to resources and capital markets compared to Group 2. The t-test analysis confirmed significant differences ($t = 3.76$, $p < 0.001$), supporting *H3*. These findings suggest that family firms that prioritize best governance practices tend to experience improved financial performance, reduced agency conflicts, and better access to resources and capital markets.

To examine *H4*, the sample was divided into two groups: Group 1 consisted of family firms that successfully navigated the challenges and complexities of corporate governance, while Group 2 comprised family firms that struggled to address these challenges effectively. The long-term sustainability and success of each group were measured and compared.

Table 4. Long-term sustainability and success in family firms that effectively navigate challenges and complexities (*H4*)

Group	*Mean*	*Std. dev.*	*t-value*	*p-value*
Effective navigation (Group 1)	4.12	0.69	2.79	< 0.05
Ineffective navigation (Group 2)	3.64	0.91		

Note: Significant at the 0.05 level.
Source: Authors' estimation.

Table 4 displays the results of the comparison between Group 1 and Group 2. The mean long-term sustainability and success for Group 1 was significantly higher (mean = 4.12) compared to Group 2 (mean = 3.64). The t-test analysis confirmed a significant difference ($t = 2.79$, $p < 0.05$), supporting *H4*. These findings suggest that family firms that successfully navigate the challenges and complexities of corporate governance tend to demonstrate greater long-term sustainability and success compared to those that fail to address these challenges effectively.

Overall, the results of the hypotheses testing support the notion that effective governance mechanisms, management of family dynamics, adoption of best practices, and successful navigation of challenges and complexities are associated with improved performance and sustainability in family firms. These findings highlight the importance of implementing effective governance strategies and addressing specific factors that influence corporate governance dynamics in family-owned businesses.

5. CONCLUSION

This comprehensive exploration has delved into the intricate governance dynamics within family firms. The interplay between family dynamics and corporate governance, the identification of success factors and best practices, and the nuanced challenges unique to corporate governance within family firms have been diligently examined. Through rigorous data analysis and hypothesis testing, several key findings and insights have emerged.

Effective governance mechanisms profoundly impact family firms, leading to sustained levels of elevated performance and highlighting the pivotal role of robust governance practices in securing enduring success.

Family dynamics wield a substantial influence on corporate governance, and adept management of these dynamics tends to yield more favorable governance outcomes.

The incorporation of best governance practices brings about improved financial performance, reduced agency conflicts, and enhanced access to resources and capital markets.

Addressing the nuanced array of challenges specific to corporate governance emerges as a linchpin for family firms' long-term sustainability and triumph.

These insights entail practical implications for family firms and their governance strategies:

1) implementation of effective governance mechanisms, such as balanced boards and family councils, can underpin sustained performance;

2) skilled management of family dynamics through transparent communication and adept conflict resolution can yield optimal governance outcomes;

3) adoption of best governance practices, aligned with industry standards and leveraging external expertise, can bolster financial resilience and enhance resource access;

4) proactively navigating governance challenges, including robust succession planning and fostering innovative cultures, emerges as pivotal.

Recognizing potential limitations, including self-reporting bias and the cross-sectional nature of data, this study employs methodological triangulation to mitigate these concerns (Creswell, 2014). The adoption of both qualitative interviews and surveys enhances data robustness and allows for a more nuanced understanding of the phenomenon under investigation. Furthermore, the study is conducted across diverse family firms to enhance the generalizability of findings.

The robust methodology adopted in this study contributes to scholarly rigor and enhances the credibility of the results. By addressing limitations through triangulation and diverse sampling, this study seeks to provide a comprehensive and nuanced understanding of the intricate interplay between governance mechanisms, family dynamics, and sustained performance in family firms.

However, it is vital to acknowledge the limitations inherent in this research. These encompass potential self-reporting bias in survey responses, the inherent constraints of cross-sectional data for causal inference, and the contextual particularities characterizing the sampled family firms. These limitations not only inform the bounds of this study but also extend an invitation for future research to delve deeper into these areas.

In conclusion, this study has cast a focused light on the paramount significance of effective governance mechanisms, the adept management of family dynamics, the strategic adoption of best practices, and the skillful addressing of governance challenges. The findings stand as a guiding compass for family firms and practitioners striving to cultivate enduring governance practices that steer sustained performance and steadfast success.

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