FAMILY GOVERNANCE AND ITS ROLE IN SUSTAINING FAMILY-OWNED BUSINESSES

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Abstract

Family governance provides a framework that helps family-owned enterprises balance family and business interests, promoting stability and continuity across generations. This study examines how factors such as family size, generational diversity, and ownership distribution shape governance mechanisms. Through theoretical insights and case studies, key governance tools like family councils, family constitutions, and succession planning are analyzed. Findings indicate that governance strategies tailored to family structures play an essential role in enhancing the resilience and success of family businesses (Barbera et al., 2023; Rüsen et al., 2021).

1. INTRODUCTION

Family-owned businesses have distinct characteristics due to the intersection of family and business dynamics, creating both challenges and opportunities for governance (Hiebl, 2012). Family governance encompasses formal and informal structures aimed at aligning family values with business goals while promoting continuity across generations. Unlike corporate governance, which focuses primarily on protecting shareholder interests, family governance bridges personal and business interests, fostering a harmonious balance between them (Behringer et al., 2020).

In Germany, where family businesses make up approximately 90% of all companies, these governance practices have far-reaching implications for economic stability and job creation (Fels & Wolter, 2022). Major German companies, such as BMW and Henkel, exemplify how family-owned businesses incorporate family values while maintaining competitiveness. This study explores key family governance mechanisms and examines how varying family structures influence their effectiveness (Schuler, 2022).

2. KEY MECHANISMS IN FAMILY GOVERNANCE

Family governance mechanisms are often tailored to complement corporate governance structures. Key tools in family governance include:

- *Family councils*: Family councils provide a platform for discussing both family and business matters, enabling inclusive decision-making and fostering unity. This structure is particularly useful in large or multi-generational families, where varying interests need formal mediation (González-Cruz et al., 2021; Schuler, 2022).
- *Family constitutions*: Sometimes called family charters, these documents outline the family's shared values, vision, and guidelines for engagement with the business. Although non-binding, family constitutions set standards for succession, ownership rights, and conflict resolution, minimizing potential disputes (Rüsen et al., 2021; Felden et al., 2019).
- *Succession planning*: Succession planning is central to maintaining business continuity, especially during generational transitions. A structured succession plan that identifies and prepares suitable successors ensures smoother transitions and supports business stability (Behringer et al., 2020; Felden et al., 2019).

These governance tools allow family-owned businesses to balance family values with corporate goals, fostering a structured approach to managing family and business interests (Ulrich, 2011).

3. INFLUENCE OF FAMILY STRUCTURE ON GOVERNANCE MECHANISMS

Family configuration — including size, generational diversity, and ownership distribution — strongly influences governance needs and strategies. Below is an analysis of how each factor impacts governance mechanisms.

1) *Family size:*

- Small families: In businesses with fewer family members, decision-making tends to be more direct, and informal meetings may be sufficient. Smaller families often do not require a formal council, as close relationships facilitate open communication and cooperation (Ulrich & Fibitz, 2018).

- Large families: Large families typically need formal governance structures due to the complexity of coordinating many members. A family council and family constitution can be essential for managing diverse viewpoints and fostering unified decision-making (Rüsen et al., 2021; Koeberle-Schmid & Witt, 2010).

2) *Generational diversity*:

- Single-generation businesses: In businesses led solely by the founding generation, decision-making is often centralized. Governance mechanisms in these cases focus on succession planning to prepare for future leadership transitions (Stephan, 2002).
- Multi-generational businesses: In multi-generational enterprises, differences in values and goals emerge across family members. Mechanisms such as family councils and constitutions help to maintain continuity by setting shared objectives and defining roles, which also helps align diverse generational perspectives (Feliu & Botero, 2016; Ulrich & Speidel, 2023).

3) *Ownership distribution*:

- Centralized ownership: When ownership is concentrated within a few family members, governance structures can be simpler. While a family council may not be necessary, a family constitution and succession plan help maintain consistency and continuity (Ulrich, 2011).
- Decentralized ownership: In families with distributed ownership, formal structures like family councils and family offices are necessary to coordinate interests and manage shared assets. A family office centralizes investment and financial management, while a family constitution defines ownership rights and responsibilities (Santos et al., 2014; Ulrich & Fibitz, 2018).

4. CASE STUDIES: PRACTICAL APPLICATION OF FAMILY GOVERNANCE

The following case studies demonstrate how different family structures influence governance needs.

- *Small, single-generation family business*: A small, founder-led family business in the food industry exemplifies informal governance. Here, the founder and her spouse hold control, and succession planning focuses on preparing their daughter for leadership. Simple advisory meetings and informal family discussions manage governance without formal structures (Ulrich, 2011).
- *Large, multi-generational family enterprise*: In a third-generation consumer goods family business with over 30 members, formal governance mechanisms such as a family council, constitution, and

family office are essential. The family council meets regularly to coordinate decisions, while the family constitution provides guidelines on succession, ownership, and values. A family office manages investments and philanthropic projects, reinforcing shared family commitments (Felden et al., 2019; Rüsen et al., 2021).

- *International family business with decentralized ownership*: A globally operating automotive family business owned by multiple branches across countries requires sophisticated governance. An international family council, diverse advisory board, and family office manage the family's shared assets and values, facilitating communication across regions (Santos et al., 2014; González-Cruz et al., 2021).

5. PRACTICAL RECOMMENDATIONS

Tailored family governance can significantly enhance the resilience and success of family-owned businesses. The following recommendations apply to different family configurations.

- *Small families*: Prioritize informal communication and focus on succession planning, potentially with a small advisory board to assist with leadership transitions (Ulrich, 2011).
- *Large or multi-generational families*: Implement structured governance mechanisms such as family councils and constitutions to foster cohesion and support long-term goals (Koeberle-Schmid et al., 2010; Rüsen et al., 2021).
- *Decentralized ownership*: Establish a family office to manage assets and centralize financial planning. Family councils and constitutions provide clarity on ownership rights and roles (Santos et al., 2014; Ulrich & Fibitz, 2018).

These approaches help family-owned businesses balance family values with corporate goals, strengthening cohesion and business continuity (Becker & Ulrich, 2008).

6. CONCLUSION

Family governance is not only a structural tool but a strategic asset for family-owned businesses, supporting unity and sustainability. Governance mechanisms that are customized to the family's structure enable smoother generational transitions, cohesive decision-making, and a strong foundation for long-term success. Future research should explore emerging challenges, such as digital transformation and cultural diversity, which are influencing family governance priorities in new ways (Schuler, 2022).

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