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The Reality of Family Businesses, the nature of Ownership & Challenges of Good Management

واقع المؤسسات العائلية بين طبيعة الملكية وتحديات التسيير السليم

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Abstract:

The quality and privacy of family businesses lies on the composition of their owners, or board members. We discussed in this analytical research paper the compositions of individual and collective ownership in family companies in both of performance & activity of their strategies that allows these businesses to achieve their goals.

We used a descriptive approach, which gave us an opportunity to present the challenges and problems that these family businesses may face, in the journey of success of these singular-owned or collectively owned family business.

Key words: family business, ownership, good management, governance, family business challenges

JEL classification code : M12, G32, G34

*الملخص:*تكمن نوعية وخصوصية المؤسسات العائلية في تركيبة المالكين فيها، أو في طبيعة أعضاء مجلس الإدارة. تطرقنا في ورقتنا البحثية الإستقصائية هاته إلى تركيبة الملكية الفردية والجماعية في الشركات العائلية ومدى أهميتها في كل من أداء هاته الشركات وكذا استراتيجياتها التي تدفع بها لبلوغ أهدافها.

كما اعتمدنا على المنهج الوصفي التحليلي لعرض ما قد يواجه هاته الشركات العائلية من تحديات ومشاكل وكيف يمكن للحوكمة الرشيدة أن تحد من هاته المطبات في رحلة نجاح الشركة العائلية فردية الملكية أو جماعية الملكية.

الكلمات المفتاحية: الشركات العائلية، الملكية، التسيير ، الحوكمة، تحديات الشركات العائلية.

تصنيف JEL: M12, G32, G34

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1. Introduction:

As a fact, family businesses became more than just a common concept in the managerial languages, or economics updates as companies and corporation's activities worldwide. We are witnessing a new era where families and relatives are shaping giant and huge achievements in the private global sector.

This journey of building and creating new theorical and practical behaviors in management, leadership, into main direction and ownership. In this fully optimal adjective, there is other versions of reading the situation. Family businesses also faces a lot of issues and problems. Problems that creates incompatibility and uncertainty in a lot of axes inside this corps.

We will discuss in this research paper some main axes of this situation, as the Ownership nature inside family owned businesses. And we will also rely this subject with another axe which is the role of the good governance in solving the performance issue that could be disturbed by ownership's negative consequences. Leading to a better and great management statue.

For this purpose, we suggested the main problematic question as fellow:

''How Can Good Governance resolve family businesses' issues?''

In order to give a detailed analytical study, we also supported our main problematic with sub questions to increase the provides data of the axes and clarify the role of good governance in a well stable method:

- ***How does singular ownership functioning in family business?***
- ***How does Multiple ownership functioning in family business?***
- ***How would ownership affect financial performance in family business?***
- ***The importance of ownership on family business strategy?***
- ***What's the good governance practices in family business?***

Going through this detailed question, we will be able to put the highlights on the mentioned axes. Which is ownership & it's two types in our selected case, and the performance of family businesses as well as strategies too.

These three axes will represent our indicators of the family businesses most known characteristics, and about the good governance as an independent variable with its effectivity on the previous indicators as a positive addition to solve any possible faced issue.

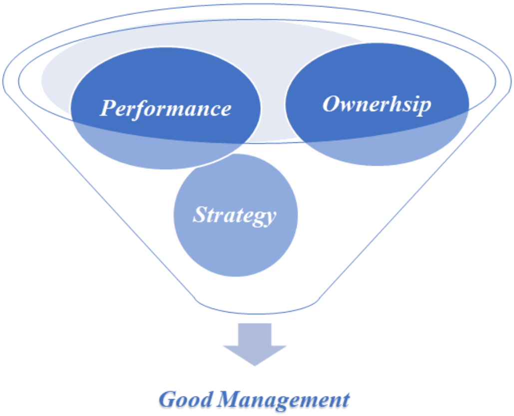


Figure 01: Research Model
Source: Researchers contribution

There were many previous researches in this specific case, and we represent some main study cases that help us build a solid support to enhance our theorical background.

1st study:

''Corporate Governance and Non-Listed Family Owned Businesses: An Evidence from Pakistan''

''The researchers described the importance of corporate governance in family owned business. This study examines the theoretical background of corporate governance in family businesses in Pakistan. Introducing the concept of good corporate governance is vital for the continuity and sustainability of the family owned businesses that support economic growth.'' (M. Awais Gulzar, 2010)

2nd study:

''Relationship between family ownership, agency costs towards financial performance and business strategy as mediation''

''This study investigates the relationship between family ownership, agency costs, financial performance, and companies' business strategies. The targeted population of this study were all 143 manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2007–2014. About 31% (45) of these manufacturing companies are family companies. The hypotheses were tested using the partial least-square (PLS) method. Our findings reveal that the companies' business strategies are not affected by the family ownership. Family ownership and business strategies influence companies' financial performance.'' (SAVITRI, 2018)

3rd study:

''System Exploitation by Family Business''

''In this study, highlights were on the successful individual entrepreneur, who transformed the enterprise into a family business, exploits the system. In so doing, the entrepreneurial enterprise continues to develop and transform itself by moving from the informal sector into the formal economy. In doing so, the family business becomes more organized and structured. Internally, as a formal organization, the newly transformed family business undergoes continued restructuring in operations, finance, and management. The family operational and management boundaries also are redefined. The study came up with a reflection on does a family transform itself into SME in order to continued search for value creation'' (Louangrath, 2015)

4th study

''The Role of family Business in the Economy''

''The scope of paper is the role of family business in the economy. researchers assert that family business is a form of direct domestic investment for the economy. Success in family business means economic growth for the nation. As such, the success or failure of the family business serves as an indicator for the health of the national economy. Family business springs from successful entrepreneur; since an entrepreneurial is the source of innovation, family business also serves as an incubator for innovation which, in turn, contributes to economic growth.'' (author, 2015)

2. The Ownership

2.1. Singular ownership in family business

Following a lot of family owned businesses, the owner is the only one family member who also leads the business. This type of family owned businesses is identified as single-family owner business. The owner in this type of a business is likely to have more power than any other members in the family business with the absolute right to make unilateral decisions. Moreover, it is a known fact that the role identities and priorities of family owners and owner-managers are expected to be shaped by their stable and close associations with other influential family members in the business (Ravindra Hewa KURUPPUGE, 2018).

The nature of the influence of family ownership and its application in the family business appear to depend upon the ownership structure of the business. In the analysis, it was revealed that the ownership of the business is a significant factor in terms of family governance. When business is owned by a single family member, irrespective of the kinship, all family members who involve in the business are more respectful to the owner of the business. On the other hand, he or she has also the absolute power in the family. The nature of single ownership of family business and its influence on governance can be illustrated by the following views (Ravindra Hewa KURUPPUGE, 2018).

Table 01: List of well-known family business

Aditya Birla Group	*Jolly Time*	*Solaris Bus & Coach*
Avantha Group	*Koch Industries*	*Swinkels Family Brewers*
Bombardier Inc.	*Lundberg Family Farms*	*Tata Group*
Cargill	*Mittal Steel*	*Toyota*
Chic Fil A	*Nordstrom*	*Trump Organization*
Country-Wide Insurance	*Panda Energy International*	*Utz Quality Foods*
Company	*Raymond Group*	*Wal-Mart*
Dillard's	*Red Bull*	*Wawa*
Ford	*Simon Property Group*	*Wegmans*
Glencore	*Kingfisher Airlines*	*WWE*

Source : http://en.wikipedia.org/wiki/family_business#cite_ref-EMJ1_18-0

2.2. Multiple ownership in family business

This category represents multiple family member owners representing different nuclear families and generations of a founding family. The distribution of ownership of the business depends on family (e.g., the number of children in the family) and business (e.g., the number of branches in the business) circumstances. The following views indicate clearly how the ownership influences the governance of this type of family owned businesses (Ravindra Hewa KURUPPUGE, 2018).

2.3. Family ownership and financial performance

Achievement of a company in financial performance can give an overview of the company's financial condition in a certain period. Family companies can improve their performance by collaborating five competitive advantages, namely combination of ownership and control, reduced information gap, sustainable family shareholders, source of entrepreneurship and innovations, and investment efficiency. Therefore, this approach can influence family ownership to the company's performance (SAVITRI, 2018). Family-owned companies usually allocate more than 30% of the profit for financial performance improvement. However, financial performance may decrease when family ownership increases. It is a result of conflict of interest among the family members which are disadvantageous for minority of shareholders. Nevertheless, the improvement of financial performance can be stable if the family is kept under a supervision to minimize expropriation; it will be beneficial for the family-concentrated companies. Pressure to the company will cause institutional overlap, where a business institution is also a family institution at the same time which leads to a dilemma. The owner which is also the manager frequently puts the goal of the family before the business which decreases the level of company performance (SAVITRI, 2018).

Phase	Older Generation	Younger Generation	Key Challenges
Young business family	Under 40 years old	If present, under 18 years old	• Creating a workable "marriage enterprise" • Making initial decisions about the relationship between work and family • Working out relationships with the extended family • Raising children
Independence of younger generation entering the business family	35 to 55 years old	13 to 29 years old	• Managing the mid-life transition • Separation and individuation of younger generation • Facilitating a good process for initial career decisions
Working together	50 to 65 years old	20 to 45 years old	• Fostering cross-generational cooperation and communication • Encouraging productive conflict management • Managing the three-generation working together family
Passing the baton	Older than 60 years		• Senior generation disengagement from the business • Generational transfer of

	family
	leadership

Source. Gersick, Davies, McCollom Hampton, and Lansberg (1997).

2.4. Family ownership, business strategy and financial performance

Family participation in a company can strengthen the company since family members are loyal and dedicated to the family company. However, the participation sometimes causes problems in managing family companies, especially in selecting a strategy to gain share market and focus to improve the company performance.

It is in line with Moores (2009) who argues that family companies do not only aim for financial goal but also for the sustainability of the company so that the business strategy can be fulfilled. Therefore, family ownership is supported by good business strategy in order to improve the company performance (SAVITRI, 2018).

Table 03. Family firm's nature & non-family firms' nature

	Non-family firms	*Family firms*
Dominant dimension	*Rational dimension*	*Affective dimension*
Decision processes	*Hierarchic circus*	*Based on fonder*
Decision based on:	*Rational argumentation, justification*	*Fonder conviction, intuition*

Source: Basly S. (2007).

Conceptually, company financial performance measured by Return on Equity (ROE) is an ability to generate profit for the shareholders from own capital. Family company with relatively big portion of share expects better return on equity growth. However, it is not in line with the expectation of increasing ROI, since large family ownership means that the share owned by the family is not followed by growth of financial performance which is measured by return on equity.

Emphasis on company as institutional overlapping in a family company in which a business institution is also a family institution leads to a dilemma. The owner which is also the manager frequently puts the goal of the family before the business which decreases the level of company performance (SAVITRI, 2018).

2.5. The influence of family ownership on business strategy

The owners (family) are the representative which will run the business' activities. According to Anderson and Reeb (2003), a family-firm is every company which has dominant shareholders. Morck and Yeaung (2004) define family-firms as a company which is basically focus on heredity or inheritance from people who previously run or create the company or a family who obviously inherits the business to the second generation.

Family-concentrated firms have entrepreneurship and innovation. The main management will introduce innovations and come up with brilliant ideas for achieving the vision and mission of the company. Also, Business strategy is essentially apart of a company.

The selection of a business strategy in family-concentrated companies pays a lot of attention to the strengths and weaknesses of the strategy. One way of exploring business strategy proves that the company tends to do a great variety of business extensively.

Companies which are controlled by a family do not only aim for financial improvement. Family companies are concerned with long term continuity of the business so that the business strategy which has been designed by the company can develop according to the plan. However, special characteristic of family companies in deciding business strategy cannot directly determine a certain business strategy which is suitable with family ownership since the business strategy in family companies is dichotomous (SAVITRI, 2018).

3. The Challenges & Problems

3.1. PROBLEMS AND CONSEDIRATIONS OF Family owned businesses

The family business is the world’s most common type of business organization. It is also the most complex, with unique strengths and weaknesses that stem from being family owned and managed. On the positive side, family businesses tend to emphasize high quality, invest for the long term and develop loyal relationships with employees and key stakeholders. This can make them tough competitors. At the same time, family businesses also tend to focus on issues and tensions within the family. A heightened concern with control can limit their growth and opportunity (M. Awais Gulzar, 2010).

“Family Business Consulting” summarizes the key FOB strengths & weaknesses in the following table:

Table 04. “Family Business Consulting” summarizes the key Family Owned Business strengths & weaknesses

	Strength	**Weakness**
Infrastructure	Informal; Flexible, entrepreneurial; innovative	Unclear, confusing, boundary problems, indecisive, lack of management development, no organization charts
Roles	Often play multiple roles; flexible; dual relationships; quick decision making	Role confusions, jobs don’t get done, nepotism, dual roles interfere with learning and objectivity
Leadership	Creative; ambitious, informal authority; entrepreneurial	Autocratic, resistant to structure and systems; avoids letting go.
Family’s involvement	Employees committed, loyal, shared values and belief system: family sprint, family name; family dream; strong sense of mission’s vision	Can’t keep family issues out of business; inability to balance family’s and business’s need for liquidity, lack of objectivity

Time	Long-term perspective, committed, patient capital; loyalty, deeper ties; trust built up over time	Hard to change, tradition bound, history of family affects business decisions; trust affected by early disappointments
Succession	Training can begin early; mentoring a long-life process; can choose when to leave	Family issues get in way, unwillingness to let go, inability to choose a successor
Ownership Governance	Closely held; family owned; high degree of control. Earnings are motivators	May sacrifice growth for control; do not have to answer to stockholders; often no outside board of directors; high premium on privacy
Culture	Innovative, informal, flexible, creative, adaptable, common language. Efficient communications	Founder's role stifles innovation; inefficient, highly emotional, resist to change, reactive. High risk for conflicts
Complexity	Can foster creativity, rich interplay of roles and goals	Must be managed to avoid confusion, can be a drain of resources and energy

Source : http//familybusinessconsulting.com/resources/strengths.html

3.2. General Challenges facing Family owned businesses

Globalization has led to severe competition and increasing consumer demands. Every business organization has a unique set of challenges and problems. The family business is no different. Many of these problems exist in corporate business environments but can be exaggerated in a family business. Family business goes through various stages of growth and development over time. Many of these challenges will be found once the second and subsequent generation enters the business (M. Awais Gulzar, 2010).

A famous saying about family owned business in Mexico is “Father, founder of the company, son rich, and grandson poor” (Padre noble, hijo rico, nieto pobre). The founder works and builds a business, the son takes it over and is poorly prepared to manage and make it grow but enjoys the wealth, and the grandson inherits a dead business and bank account (M. Awais Gulzar, 2010).

Following are the major challenges face by the FOBs.

1) Mostly the FOB control is centralized and influenced by tradition instead of good management practices.
2) There is no documented plan or long-term planning.
3) Hiring family members who are not qualified or lack the skills and abilities for the organization. Inability to fire them when it is clear they are not working out.
4) Absence of clear policies and business norms for family members.
5) Lack of outside opinions and diversity on how to operate the business.
6) Dividends, salaries, benefits and compensation for non-participating family members are not clearly defined and justified.
7) Roles and responsibilities are not clearly defined.
8) Long term planning to cover the necessities and realities of older family business members when they leave the company.
9) Family problems will affect the business. Divorce, separations, health or financial problems also create difficult political situations for the family members.
10) Most family organizations do not have a plan for handing the power to the next generation, leading to great political conflicts and divisions.
11) No knowledge of the worth of the business, and the factors that make it valuable or decrease its value.
12) Decisions are made day-to-day in response to problems. No long-term planning or strategic planning.

13) Provoked by role confusion, emotions (envy, fear, and anger), political divisions or other relationship problems.

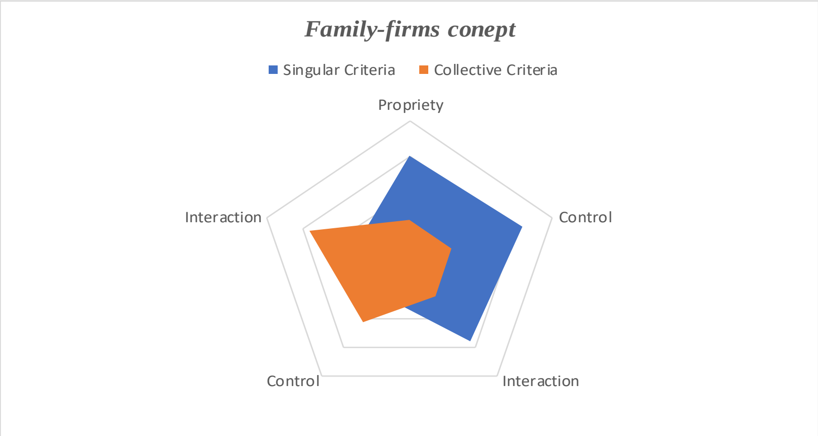


Figure 02. Family-firms concept

Source: researcher contribution based on HAMMOUDA.N E (2008)

4. The Management & Governance

4.1. Family Management in Governance

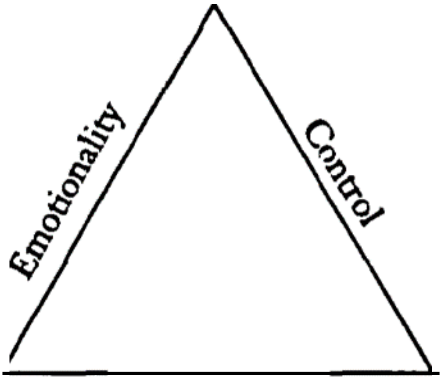
Family management appears to exist in all levels, namely directorate, managerial as well as non- managerial levels of the family businesses taken as the cases for this study. Prior research related to family businesses also reveals that family management in business play a crucial role in running family businesses. For instance, researchers in family businesses generally agree that family management in the business is what makes the family business different from non-family business. Furthermore, Chrisman et al. emphasize that the family power, via the degree of family involved in managing the family business, makes distinctions even within family firms (Ravindra Hewa KURUPPUGE, 2018).

Table 05. Ideological Tensions: A Summary

	Entrepreneuria/ism	Paternalism	Managerialism
Rationalities	Venturing, creating	Caring	Being in charge
Characteristics	Initiative, innovating, organic	Protective, dominating, fatherly	Calculative, supervising, mechanistic
Parallel Features, Ties	Intentionality, emotionality	Emotionality, control	Intentionality, control
Traps	Foolhardiness, shared speculation	Folie a deux, Share illusion	Inflexibility, shared rigidity
Justification of Power	Ownership, risk taking	Seniority, superiority, being "above"	Managerial competence, position
Attitude to "Keeping"	Keeping business in change	Keeping traditions	Keeping business as controlled

The review of literature related to family management reveals that family businesses are different type of business over non-family businesses mainly due to the family management in the family businesses. Further, it revealed that not all family businesses become equal in terms of family management. Family management itself also generates the deviation among family business firms. Thus, it can be concluded that family management plays a significant role in governing family businesses. Following sub-sections respectively discuss the ways in which family members involve in managing the family business at directorate, managerial and non-managerial levels (Ravindra Hewa KURUPPUGE, 2018).

Figure 03: Ideological Tensions in Family Business



PATERNALISM

ENTREPRENEURIALISM **Intentionality** MANAGERIALISM

Source: Johannisson and Huse (2000, p. 357)

4.2. Family management at directorate level

It was evident that all four cases have families involved at the highest level of the business decision making. More specifically, the family directors provide strategic direction to the business and oversee the activities of the managerial as well as non-managerial level of staff. However, the number of family directors involving at the strategic level of decision making seem to be different, for example, in some cases all the family directors are regular in business decisions while in some other cases family directors do not appear in business decision making regularly. Following quotes highlight such instances (Ravindra Hewa KURUPPUGE, 2018).

Table 06. Sequential Stages of the Family Business Development

Phase	*Olders*	*Youngers*	*Key Challenges*
Young business family	Under 40 Years Old	If present, under 18 Years Old	• Creating a workable "marriage enterprise" • Making initial decisions about the relationship between work and family • Working out relationships with the extended family • Raising children
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Working together	50 to *65* Years Old	20 to 45 years Years Old	• Fostering cross-generational cooperation and communication • Encouraging productive conflict management • Managing the three-generation working together family

Passing the baton	Older than 60 Years Old		• Senior generation disengagement from the business • Generational transfer of family leadership

Source. Gersick, Davies, McCollom Hampton, and Lansberg (1997)

4.3. GOOD GOVERNANCE PRACTICES:

For the FOBs, good governance makes all the difference. Family firms with effective governance practices are more likely to carry out strategic and succession planning. On average, they grow faster and live longer. The guide recommends a responsibility on the directors to exercise "reasonable care" in carrying out their duty in a manner consistent with relevant laws and regulation, as well as the articles of association and resolution of the shareholder's meeting (M. Awais Gulzar, 2010).

A. . Board of Directors

The board shall have a reasonable number of members and shall include a balance of executive and non-executive directors (including an independent non-executive director) to facilitate effective and objective board management.

The number of directors should be fixed according to the company's size, age, nature of business operations, and future, ensuring effective and efficient governance. The board should comprise a minimum of five directors. A casual vacancy on the board of directors shall be filled by the remaining directors expeditiously. The company should set a certain percentage of board members to be designated as non-executive. Numbers will vary with the size of the board, but at least one director should be non-executive. Non-executive directors should be identified by the family council and elected by the shareholders.

B. Family Governance

Ownership and exercise of rights of all shareholders, including minority shareholders, should be respected and protected by forming a functional family council. Observing shareholder rights is necessary for a company to function and grow. A family council can act to preserve these rights in companies where: shares are held by several family members; shares are held within several branches of the family; or, within a single branch of the family, multiple generations are involved in various roles in the company.

The family council shall serve as a platform for communication and consultation in connection with the family business, and to give guidance to directors representing the family about the family's interest in the policies adopted or to be adopted by the company. This council shall play a major role in resolving conflicts and issues concerning succession. Minority shareholders may seek assistance through family councils to resolve this issue. During the selection of a chief executive, the council should make its recommendations to the board of directors, which shall give due consideration to these recommendations.

C. *Employees & Other Stakeholders*

The board of directors should appreciate the role of the employees, especially key management, in the success of the company and should ensure that employees are treated with fairness and equity and without discrimination. The company should recognize the role and rights of its stakeholders, both through established laws or mutual agreement, and should encourage active cooperation to achieve operational and financial sustainability.

D. *Ethics, Disclosure, and Transparency*

The organization should be governed in an ethical and transparent manner under effective accountability mechanisms. Transparency is in the heart of corporate governance. The largest failures in business history such as Enron and Parmalat, was mainly because of the poor disclosure of the financial statements of such corporations. Therefore, when one looks at any code of corporate governance at any country, it is evident that transparency and disclosure of information is the biggest block in all codes (look for example at the Egyptian code, the combined code of England, the King report of South Africa, the OECD code, and Sarbanes Oxley of the USA). Sir Cadbury stresses that fairness and transparency in financial and non-financial perks and reward systems, particularly within the family, is an essential tool in avoiding tensions over perceived injustices.

4.4. WHY CORPORATE GOVERNANCE IS CRUCIAL FOR FAMILY OWNED BUSINESSES

Increasing growth and globalization has brought many challenges for family businesses. The way you deal with them can mean the difference between success and failure.

Many of these challenges can be tackled by adopting sound corporate governance systems.

A. Managing Growth

As family firms expand, the relationship between owners, managers and employees becomes more complex. A good corporate governance system puts in place the right policies to manage this complexity. It creates a solid organizational structure that clarifies roles, reporting lines and delegation of responsibility. Corporate governance also draws the line between ownership and management and separates policy direction from the day-to-day running of the company.

A. Succession Planning

Leadership succession is a challenge for all companies, but particularly for family businesses. According to Gatamah, for good corporate governance system for FOBs, succession planning, formalized decision making, and cultural factors are very important. To ensure that leadership transition does not disrupt your company's growth, you need to have clear policies for the selection of the right family member. Successful family businesses are the result of years of hard work and dedication. To pass on this success, corporate governance needs to be made part of the family firm's culture.

B. Preserving Family Harmony

Family members may have conflicts among themselves on the running of the company. A solid governance system helps resolve such conflicts allowing family members to focus on other key issues.

C. Recruitment and Promotion

Recruitment and human capital management are major factors in a family firm's long-term success. A governance system that provides clear guidelines for employing family or non-family members and impartial performance-based promotion is essential to the sustainability of your business.

D. *Ensuring Fairness*

Open decision-making and procedures that ensure fairness in evaluating and rewarding both family and non-family employees are essential tools in avoiding tensions and raising the reputation of your company.

4.5.GOVERNANCE MECHANISMS AND FAMILY FIRMS

Governance is ‘‘the determination of the broad uses to which organizational resources will be deployed and the resolution of conflicts among the myriad participants in organizations’’. Thus, it encompasses two major responsibilities: setting the organization’s strategic direction and striking a dynamic equilibrium between the interests of the firm’s dominant coalition and those of the other stakeholders who provide essential resources to the firm. To achieve the latter, the organization must decide where the equilibrium will be, the types of governance mechanisms to be used to facilitate that equilibrium, and how the mechanisms will be applied (James J. Chrisman, 2017).

These mechanisms consist of the formal and informal rules, practices, and processes that emanate from inside and outside a firm to direct and control firm behavior in a manner that balances and aligns the interests of its stakeholders, including owners, managers, customers, suppliers, governments, and communities. They exist along at least two dimensions: where the mechanisms originate and the extent to which the mechanisms are codified. First, governance mechanisms can originate from inside (internal) or outside (external) the firm. As noted above, the literature tends to focus on internal governance mechanisms. Thus, the two internal mechanisms typically associated with agency theory are monitoring and incentive compensation; however external mechanisms such as the market for corporate control and the legal system are also important. Second, governance mechanisms can be formal or informal. Formal mechanisms are codified by laws, regulations, rules, and policies, whereas informal mechanisms, although not codified, are represented by pressures for conformance, accommodation, or adaptation to the norms and values of society and/or the interests of salient stakeholders (James J. Chrisman, 2017)

A reason we study family firms is that the types and significance of the governance mechanisms to which they are subject vary in important ways from those of nonfamily firms. In their formal internal governance mechanisms, family firms are different for several reasons. First, they differ from publicly held corporations with widely dispersed ownership because of the concentrated ownership held by a small number of family owners and managers who make up the dominant coalition. According to agency theory, this provides sufficient economic incentive for the owners to monitor their managers closely, thereby minimizing owner–manager agency costs. This source of control can *sometimes* reduce agency problems between owners and man- agers. Third, *sometimes* the pursuit of solutions to these problems can generate unique double-agency costs through the creation of intermediary governance mechanisms. Finally, the pursuance of family oriented noneconomic benefits may shift the targeted equilibrium (James J. Chrisman, 2017).

Thus, it appears that how the behaviors and performance of family firms are influenced by formal and informal governance mechanisms that exist within or outside their boundaries should become an integral part of the field's future research agenda.

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