Corporate Governance and Family Business: A Perspective Article

Abstract

Purpose: The governance of family businesses has attracted considerable scrutiny among scholars and practitioners. This paper explores influences that have defined corporate governance practices in family firms in the last century and reflects on the possible direction of research and practice in the next century.

Design/methodology/approach: This manuscript undertakes a literature review of past and recent literature investigating corporate governance practices within family businesses.

Findings: The evolution of corporate governance in the family business literature is underpinned by centralised decision-making structures, the need to overcome fundamental corporate governance challenges, the increasing relevance of family governance models, and the recognition and adoption of contemporary trends in the corporate governance space. The review also suggests that corporate governance and family business research in the next century will be dominated by technology-based governance, sustainable governance, globalisation and the validation for multi-board structures, greater attention to succession planning and diversity, and channelling significant resources to innovation.

Originality/value: The paper synthesises developments in the corporate governance–family business literature and reflects on developments that would influence the future direction of the scholarship.

Keywords: Corporate governance, family business, technology, sustainability.

Paper type: General review

Introduction

From humble beginnings characterised by informality and familial control to contemporary structures emphasising professionalism and transparency, Brenes, Madrigal and Requena (2011) and Aguilera and Crespi-Cladera (2012) note that the landscape of family business governance has evolved substantially. This is remarkable given that family firms are typically portrayed as grossly inefficient and the fountainhead of unsolvable family disputes (Colli, 2003; Liebowitz, 2012). Research suggests that the longevity of family businesses is curtailed by inefficiency and mismanagement. While Anderson and Reeb (2004) conclude that the number of family businesses that survive into the third generation ranges between 10%-20%, Barach (1984) contends that a mere 30% of family businesses survive beyond the first generation. These concerns have incentivised family business research, building on the assumption that family representation in ownership, management, and governance inspires a broad range of organisational processes and corporate policies, including corporate governance (Bammens, Voordeckers and Van Gils, 2012). Thus, corporate governance in family businesses has gained considerable scholarly traction while undergoing significant transformations (Madison et al., 2016). This review provides an overview of the perspectives and developments in corporate governance within family businesses in the last century on the one hand and the next century on the other (see Figure 1).

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Insert Figure 1 here.

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Perspective in the past 100 years of research and practice

In the early to mid-20th century, family businesses represented a significant force in the global economy, contributing to economic development and societal stability (Colli, 2003). Family businesses were predominantly small and closely held during this period, and governance structures were often informal, with decision-making centralised within the family. The patriarchal model prevailed, where the head of the family made key decisions without formalised processes or external scrutiny. This era was characterised by a lack of separation between ownership and management (Fama and Jensen, 1983; Hassan, Hijazi and Naser, 2017), limiting the potential for professionalisation and growth. According to Karaevli and Yurtoglu (2021), these challenges incentivised the emergence of more sophisticated family business governance practices in the mid-20th century. Mounting business and operational complexities demanded greater professionalisation, prompting the establishment of boards of directors and the introduction of non-family members into key managerial positions (Jayaram, Dixit and Motwani, 2014). The separation of ownership and management became more pronounced during this period, underlining a growing recognition of the need for external expertise.

Despite the escalating significance of separating ownership from control (a key component of corporate governance), Uhlaner (2013) maintains that family control, even among publicly held firms, remained the rule rather than the exception, especially outside the United States and the United Kingdom. The fused ownership-control model in most family firms accelerated corporate governance challenges among family businesses. Concerns, including succession planning (Luan et al., 2018), conflict resolution (Alderson, 2015), and the balance between family and business interests (Anderson and Reeb, 2004), drew considerable attention in the literature. These challenges motivated calls by academics and practitioners to develop formal governance structures to address these complications. In response, codes of conduct and best practices specific to family businesses emerged (Sarbah and Xiao, 2015). These interventions stressed a shift towards more specialised governance models tailored to fit the unique characteristics of family businesses. For example, Tagiuri and Davis (1992) proposed the three-circle model, that emphasises the balancing of the overlapping domains of family, ownership, and management. The model encouraged family firms to establish transparent governance processes to ensure effective management of the three spheres.

Since the 2020s, the specialised models have profoundly impacted corporate governance in family firms. Several notable developments have shaped the landscape of family business governance. Kong (2023) explained that the growing focus on sustainability and social responsibility has compelled family firms to adopt governance practices that align with environmental and social goals. Besides, the technological revolution has influenced family firm governance through the implementation of advanced data analytics, cybersecurity measures, and communication tools to enhance decision-making and transparency (Brenes et al., 2011). Casillas and Moreno-Menéndez (2017) discussed the role of globalisation, hinting that the transition to robust governance practices among family firms benefits from their desire to operate on a global scale, necessitating more complex governance structures to manage international operations and diverse stakeholders. It is also worth noting that the last few years have seen family firms reinforce the critical issue of succession planning (Luan et al., 2018). Family businesses are addressing succession planning with greater urgency, with many implementing structured processes to ensure a smooth transition to the next generation.

Perspective in the next 100 years of research and practice

The world of corporate governance in family businesses is on the cusp of significant transformation as we journey into the next century. Anticipating developments in the next century requires envisioning a dynamic landscape shaped by technological advancements, evolving family dynamics, and global economic shifts. Primarily, the coming decades will likely be marked by the integration of cutting-edge technologies into family business governance. Artificial intelligence (AI), blockchain, and quantum computing are anticipated to revolutionise decision-making processes, enhancing transparency and accountability (Lannon, Lyons and O'Connor, 2023; Upadhaya et al., 2023). Baryannis et al. (2019) argued that AI-powered governance systems will provide real-time insights, aiding in risk management and strategic planning. Smart contracts on blockchain would automate compliance, reducing the likelihood of governance-related disputes. AI-enhanced ethical governance would assume greater importance as AI plays a central role in ethical governance (Xue and Pang, 2022). AI algorithms will be deployed to monitor and enforce ethical guidelines within family businesses to combat the risk of conflicts of interest and unethical practices. AI-driven ethical governance would build trust among stakeholders and enhance the reputation of family businesses.

In addition to technology, the mid-21st century would likely reinforce sustainable and impactful governance systems focusing on environmental, social, and governance (ESG) elements (Kong, 2023). Family firms are anticipated to be at the forefront of sustainability efforts, aligning their governance structures with ESG principles. Their boards would include sustainability experts, and integrated reporting frameworks would become standard. This is because their governance practices will be evaluated not only on financial performance but also on their impact on society and the environment. While the focus on ESG and sustainability will extend the operational spectrum for family businesses, these concepts would heighten their globalisation prospects in the 22nd century, enabling expansion across borders and necessitating sophisticated governance structures. Such expansions would birth multi-board systems among family firms, comprising regional and local boards with specific responsibilities. These structures would also enable family businesses to navigate diverse regulatory environments and cultural contexts while maintaining centralised control at the family level.

The widely reported complexities associated with sustainability systems (Kong, 2023) and globalisation (Casillas and Moreno-Menéndez, 2017) in family firms might have substantial implications for generational transition and diversity. As generational shifts continue, family businesses will grapple with governance challenges related to succession planning and diversity. The inclusion of diverse family members, regardless of gender, ethnicity, or nationality, will be prioritised. Multi-generational governance models would evolve, highlighting mentorship and intergenerational communication to ensure a seamless transition of power and knowledge. Therefore, family businesses must embrace innovation in corporate governance to deepen their competitiveness, adapt to shifting market dynamics and enhance transparency. Rod (2019) posits that family businesses that engage in multiple levels of innovation – incremental and radical – are likely to enjoy performance advantages across generations. Frank et al. (2019) and Toska et al. (2022) corroborate this view, documenting that the desire to embrace innovation by the second generation in family firms is central to corporate perpetuation.

Conclusion

This article presents a synopsis of the evolution and potential future trajectory of corporate governance in family businesses over two centuries, from 1923 to 2123. The review unearths a remarkable transformation journey, from the early years characterised by informality and familial control to contemporary structures emphasising professionalism, transparency, and sustainability. Family businesses have recognised the need for professionalisation, the separation of ownership and management, and the integration of governance best practices to promote their competitiveness and perpetual succession in a dynamic global landscape.

As we look ahead to the next century, several key themes are anticipated to emerge. These developments would trigger generational transitions that demand flexible and adaptable governance models (Casillas and Moreno-Menéndez, 201). Throughout this journey, family businesses must strike an equilibrium between tradition and modernity, preserving their unique values while embracing innovation.

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