

Chapter 2

Family Business Governance

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ABSTRACT

Corporate governance is a significant tool to build strong and long relationships among various stakeholders in kinds of business organizations. Family businesses are not an exception to this. Like any other businesses, family businesses also need to have governance in place and practice to achieve the business strategies and to have long-term succession. Family-owned businesses are the backbone of many countries' economies in the world contributing substantial portion of GDP. Considering these, it is important to know the best practices of governance in family owned business organizations and the role played by governance to improve the strengths of these businesses. The chapter throws light on family business governance and explores various important practices highlighting their advantages and disadvantages in detail.

INTRODUCTION

Family business have unique capacities to fuel economic growth and these businesses have always nurtured entrepreneurial talent across generations to have long-term strategic commitment and independence. Family businesses contribute in social and environmental development, incessantly create new jobs, and provide better quality of life for citizens. Family businesses are the most long lived business entities and they are agile and resilient.

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Family Business- Definitions

“A company is considered as family business when it has been closely identified with at least two generations of a family and when this link has had a mutual influence on company policy and on the interests and objectives of the family”. Donnelley (1964)

“Family businesses are those where policy and direction are subject to significant influence by one or more family units. This influence is exercised through ownership and sometime through the participation of family members in management. It is the interaction between two sets of organizations, family and business that establishes the basic character of the family business and define its uniqueness”. Davis (1983)

“Family business is a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families.” Chua et. al. (1999)

“Family business includes any business in which the bulk of the ownership or control lies in a family, and in which two or more family members are involved directly”. Brockhaus, (2004).

“Family business is an enterprise which is built on the family’s needs and abilities; is owned, managed, and controlled by the family; exists for perpetuating family values and unity; the business policies and decisions are significantly influenced by the family; the family members are deputed on key positions and the succession of the business passes down from one generation to the other”. Rastogi and Agrawal (2010)

“Family business is a business governed and/or managed in order to form and follow the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families that is potentially sustainable in all generations of the family or families.” Alderson (2011)

“Family businesses is group of people with family ties that promote the adoption of “best practices” and the development of competitive advantages in business they own, based on the assumption that these firms were or are source of generating value for themselves”. Zapatero *et al.*, (2012)

According to Poza and Daugherty (2013) a business can be considered as a family business when: ownership rights (fifteen percent or more) are with two or more members of a family; family members serve in management, as board member or advisors, and thus influence strategic decisions; relationships are given importance and there is dream of continuity across generations; there is overlap of family, ownership and management, and absence of growth plan may make it vulnerable during succession; and has unique competitive advantage derived from the family.

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