

Chapter 26

Governance Structure Theories for Family Business

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ABSTRACT

It is perceived by the authors that family ownership may be seen as an opportunity or a threat based on various factors. Ownership and commitment to business would definitely be able to address the concerns of the investor community. This is because of a better understating by the family in having a strategic approach to risk management. Therefore, all the more important to have the right governance conditions in place which reflects the positive aspects of family ownership. The author further states that in order achieve the said perspectives, there emanates a need for a design structure of governance to have a balance between family and business. Hence, it becomes all the more vital to define family values and have the involvement of each and every family member. The author further elucidates on the fact that it becomes imperative to improvise capital and ensure a proper leadership succession planning so that business continuity does not suffer.

DEFINING FAMILY BUSINESS GOVERNANCE

Family businesses have been there for many centuries and as such each family entity shares a sense of identity and collectiveness in terms of mutual interests. Every family business had its own unique proposition from a business dynamics point of view, but as time passed, structures that facilitated a better business approach started taking prominence. This slowly gave rise to family business governance.

Family governance is a way to facilitate communication and help educate family members through a constructive process. It provides a platform that empowers family members to collectively contribute to business decisions and problem resolutions. In other words, it should encourage ownership discussions

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and provide for continuous feedback. This ensures peaceful business continuity and helps the family realize its business goals that are shared by all members.

Family business governance is also a mechanism through which family members especially in large family entities, can be educated about the various aspects of the business, the transitional challenge that needs to be considered, and also its genesis. This paves a way for family members to support each other and get alignment with the shared vision and goals of the business.

Effective governance, whilst creating value is also a significant contributor to the success of the family business, especially from a long-term perspective. There are lot of forces at play and crucial in the long-term success of families in business. Good governance mechanisms can help create a seamless structure - one that brings more clarity into relationships and the respective rights and responsibilities of various family members to ensure that businesses are managed professionally, whether the ones managing are family members or non-family members.

A fallout of poor governance could result in destroying the value system that has been put in place. Therefore, there is even more need for sound principles that will underpin the need for good and effective governance.

It is here that one needs to consider investing in family governance tools that would enhance the sense of family member's identification with the firm. There needs to be a comprehensive approach to identifying the governance too, one that would be fit for the purpose (Gersick & Feliu,2014) This drives entrepreneurial orientation into the ensuing generations and helps drive productivity, efficiency, and profitability of the family business.

EVOLUTION OF FAMILY BUSINESS GOVERNANCE

Family businesses are common around the world and their survival is crucial to fueling and funneling economic growth both locally and at a global level. Interestingly many well-known and successful organizations started out as family businesses, including some of the Fortune 500 companies. Not only do these companies play a very vital role but they open windows of opportunities for newer investments which are secure and provide a more stable outlook. Many business models have been societal oriented ones, both at a local and at a regional level.

From an evolutionary point of view most of the family business saw their birth as being entrepreneurial. This has slowly, but surely gone through many changes due to various external forces at play and this has brought about a much-diversified thought process amongst the families. In that, business diversifications were seen to emerge that gave rise to big and profitable conglomerates. Over the years we have seen the family business go through generational transitions which paved the way for other business opportunities to be explored.

Given this pace of change, the need for a structured governance mechanism became more imperative. To explain the evolution more elaborately, we need to rewind to the era of 80's. This period saw the three-circle family system model which was put forth by The Harvard Business School.

The three-component model has interdependent yet an overlapping system within a family enterprise. It is basically Family, Ownership, and Business. For seamless functioning, it is important to know the dependence of one system on the other and how they interact and provide a support mechanism for other systems. This system gives a certain autonomy to individual family members and let them know the extent of empowerment given to each of them. A combination of the above is the essence of Governance.

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