The Influence of Family Goals, Governance, and Resources on Firm Outcomes

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Considerable work has been done in family business research on several issues that are critical to family firms. Intermittently, family business researchers review and categorize this body of knowledge for better clarity and understanding. In this article, the authors reflect on the theoretical contributions made in literature on the influence of family goals, governance and resources on family firm outcomes like performance and survival. The authors reflect upon the interrelationships of goals, governance and resources. They also explore the linkages between governance and firm performance and survival.

Studies of Goal Formation Processes in Family Firms

Family firms are driven by both economic and non-economic goals. However, it is important to understand how members of a family firm's dominant coalition negotiate among themselves and with other stakeholders to arrive at the goals that drive organisational decision-making and how those goals change over time. Authors state that individual goals of the members of the dominant coalition are quite diverse. Members engage in social interactions to promote and achieve their goals. These bargaining processes to achieve goal consensus, increase at crucial stages such as a leadership transition. Such interactions are more effective when conducted among family members than when they are among family and non-family members. This is because the negotiations among the family members are based on reciprocal benefits whereas the bargaining among family and non-family members is based on rewards and threats. The authors suggest that goals also vary across generations. Considerations for preserving socioemotional wealth also shape goal formation in family firms.

Goals, Governance and Economic Performance

Research finds strong connection between goals, governance and financial performance of family firms. On leadership governance, family CEOs are found to be more effective in managing private family firms in industrial districts compared to non-family CEOs. The family CEOs' orientation toward loss prevention influences the firm's strategies and guides it to success. However, with regard to team effectiveness, the authors advise family business teams to have relational heterogeneity whereby a mixture of family and non-family members work together for the firm's success.

Governance and Survival

Survival is an important goal for family owners. Several studies in family business literature suggest that family firms have a significantly lower failure rate than non-family firms. The key drivers of success of family firms include clarity about family goals, social capital, survivability capital, effective governance, greater efficiency, and lower agency costs. The role of the family firm's board is of critical importance to ascertain the quality of corporate governance. The board's ability to act as effective monitor and advisor is the major determinant of a firm's corporate governance. The board must ensure that the firm sets up effective and objective governance mechanisms.

Family priorities and the firm's ownership structure change overtime. This necessitates appropriate changes to be made to the firm's governance structure. Board composition is another aspect that must evolve with times to ensure effective governance. When the firm is young, small and founder-managed, board members who can provide access to network and resources are important. As the business grows and becomes more complex, the board members need to have the expertise to provide sound advice and resolve conflicts.

Implications for family businesses

Family firms are driven by a mix of economic and non-economic goals. The clearer and cohesive these goals are, the better are the chances of family firms to survive. A family firm's performance and survival are dependent on several aspects of governance like multi-generational involvement of family members in business, setting up of clear and objective governance mechanisms, systems and processes and dispersion of ownership and power. Governance structures such as the board of directors or family business council must evolve in accordance with the changing needs of times. These measures will contribute towards long-term survival of the family business.

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