Responsible Ownership Behaviors and Financial Performance in Family Owned Businesses

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Family ownership is the dominant form of business ownership in the world. Yet understanding of the roles and behaviours of owners in family firms remains limited. Therefore, in order to understand responsible ownership behaviours, the authors studied 94 family businesses across 18 countries in this study. The authors also examined the relationship between ownership behaviours and financial performance of the firm and family assets.

Responsible Ownership Behaviour

In the family firm context, the authors view responsible ownership as a form of corporate governance. They define responsible ownership behaviours as *"owner behaviours that serve the collective good of the ownership group as well as the firm."* In their view, the owner is regarded as an active decision-maker and not just the passive supplier of capital. However, the family business literature predominantly deals with the owners' attitudinal aspects rather than behaviours. Therefore, what constitute responsible ownership behaviours and whether those influence firm performance - are the key questions that this article attempts to answer.

Types of Ownership Behaviours

Drawing insights from several management concepts including: pro-social organizational behaviour, role conflict, agency theory and resource based view of the firm, the study identifies four types of ownership behaviours. These include the following:

1. **Professionalism:** The extent to which the owners meet their roles and responsibilities among the ownership group and within the family firm defines their professional conduct. This includes adhering to family and/or business agreements, respect for hierarchy and lines of authority, policies and procedures. In terms of role conflict literature, professional conduct of owners entails not interfering with business rules and processes and not making inappropriate demands on management professionals.

   In particular, the non-managing owners must not make independent decisions, especially in the areas that are beyond the scope of their direct responsibilities.

   The authors propose that the more professionally the owners behave, the better is the firm's financial performance and that of the family's assets.

2. **Active Governance:** This refers to the supervision of management by the owners. However, this monitoring is focused on the overall welfare of the firm and not its micro-management. The overall aim that owners must have is to

ensure general compliance to governance principles adopted by the firm. This can be viewed in the context of agency theory and thus the owners' efforts here are to check resource diversion and free riding.

Therefore, the authors hypothesized that the more actively the owners govern, the better are the performances of the family firm and family assets.

3. **Owners as a resource:** This refers to the owners' abilities to provide resources to the firm - both financial and non-financial. This includes financial capital, volunteering for additional assignments, contribution through their personal knowledge and experience, favourable representation of the firm in external environment and supporting the firm even in hardships. Though the owners are not obliged to make these non-financial contributions, these extra-role behaviours are an extension of their pro-social behaviours.

   In the resource based view (RBV) context of the business, these unique resources provide the competitive advantage to the family firms. Thus the authors proposed that the more the owners behave as a resource for the firm, the better will be the firm performance and that of the family assets, *and*

4. **Fulfillment of Basic ownership duties:** This includes the owners' fundamental duties which included providing capital, attending shareholder meetings, reviewing annual reports of the firm, keeping informed on business developments and firm's activities, providing inputs on various topics like: investment strategy, succession planning etc. and contributing towards conflict resolutions. The authors proposed that in family firms the greater the degree to which the owners fulfill these basic duties, the better will be the firm's financial performance and that of the family assets.

Key Findings

The authors tested the linkages of these ownership behaviours with the performance of the family firm and assets in a quantitative study in 96 family firms. Professionalism was the most important ownership behaviour that was found to influence firm performance and family assets. Contrary to their hypothesis, active monitoring was found to have a neutral to negative effect on firm performance. This adverse effect might have been caused as management professionals could have construed more active monitoring as interference. Owners as a resource and their basic duties were not found to have significant bearing on firm performance.

Practical Implications

Family business owners need to understand that their ***professional conduct is critical*** for financial performance of the firm and family assets. They must ***avoid undue interference*** in management, as it may be detrimental to firm performance. They must, keep playing their roles as resource providers, perform the basic ownership duties and monitor the firm with an aim to provide overall direction to the business.

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