

# Governance Challenges in Family Businesses and Business Families

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Governance is a key determinant of organizational success and survival. Family businesses face several governance challenges. These challenges are often compounded in case of multi-family businesses or multi-business families. In this article, the authors extend the scope of family business governance beyond single-family/ single-business settings and identify governance challenges in multi-family/ multi-business setups. This summary captures the essence of the article and presents its practical implications.

## Why Governance is Difficult in Multi-Family/ Multi-Business Contexts

Family business governance is a mechanism to ensure that the actions of all organisational stakeholders are in congruence with the goals of the dominant coalition. Most governance models in family business research assume a single-business/ single-family setup. However, in multi-family/ multi-business settings governance challenges tend to escalate due to the following reasons:

1. **Unique Evolution and Institutional Context:** Multi-business/ multi-family firms take unique evolutionary paths dependent on their adaptability and alignment with macro-environment and institutional context. Therefore, governance mechanism effective in one context may not be appropriate in another context.

2. **High Levels of Heterogeneity:** These firms often have high degree of heterogeneity in terms of family ownership, family involvement in business, and trans-generational intentions. Hence, in order to be effective, their governance mechanism must take this heterogeneity into account.

3. **Increased Goal Diversity:** These firms often pursue diverse goals that may include a variety of financial and non-financial objectives.

4. **High Degree of Stakeholder Diversity:** These firms have various permutations and combinations of family/ non-family stakeholders. High stakeholder diversity presents a big challenge for establishing effective governance mechanism in these firms.

## Governance Challenges in Multi-Family/ Multi-Business Firms

Based on extant literature and articles in a special issue of 'Entrepreneurship Theory and Practice' journal, the authors present insights on various perspectives on governance challenges in multi-family/ multi-business settings, which include the following:

1. **Governance Challenges for Complex Families and Firms:** Governance becomes quite a challenge when the family has high level of diversity in its objectives, structure,

and prospects and sources of its wealth are complex. In such cases double agency problem and block holder conflicts may pose a serious threat to governance.

**2. Challenges for Firms with Multifamily Involvement:** These firms may have competing coalitions with diverse interests and different capabilities. The governance challenge here is to reconcile the differences and align objectives of all stakeholders.

**3. Challenges for Family Businesses and Business Families in Different Contexts:** When the family is in a single business, it focuses more on internal competencies. When the family is in multiple businesses, it operates with an investor mindset and focuses on an external portfolio of opportunities. The challenge here is of family's compatibility with the business portfolio because the competencies needed for different businesses are largely determined by their institutional contexts.

**4. Governance Challenges in Leadership Transitions:** Self-determination is preserved in succession in business families as the successor can choose the opportunity(ies) to pursue out of its diverse businesses. On the contrary, in family business settings the successor is forced to exploit one specific business opportunity, which the family had been doing.

**5. Governance Challenges in Controlling Work–Family Conflict:** Eradicating sources of conflict and providing remedies to resolve them is the major objective of an effective governance mechanism. Asset bases of business families can be very complex, which may lead to more conflicts. However, more options (compared to a single business setup) can also be explored to resolve those conflicts.

### **Practical Implications**

Successful family businesses invest their surplus assets in creating other businesses and eventually become business families. This increases the complexities and challenges of family and business governance. Therefore, it is crucial for business families to evolve their governance mechanism in a context-relevant manner so that all stakeholder objectives are properly aligned.

Well-governed business families are likely to increase the family members' potential for self-development and self-determination. In order to realize this, constant evolution of governance mechanism is essential. For this to happen, family businesses need to quick-start the process of preparing the foundations for an effective governance system.

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