Governance and Entrepreneurship in Family Firms: Agency, Behavioral Agency and Resource-Based Comparisons

– *Isabelle Le Breton-Miller, Danny Miller, and Franck Bares*

Family firms are criticised for their conservatism and unprofessional nature. Yet they continue to be the dominant fear of business organisational all across the world. Little is known about governance conditions under which family firms develop entrepreneurial orientation.

In this paper, authors probe extent literature and examine the positive and negative influences on entrepreneurial orientation of family firms. They suggest under which governance conditions family firms are most or least likely to be entrepreneurial.

Conceptual Conflict Regarding Strategic Conduct of Family Firms

Family business researchers have explained the strategic conduct of family firms using three theories:

1. Agency Theory: Scholars suggest that opportunism is low in family firms as ownership and management incentives are aligned and owners monitoring capabilities are superiors. As a result, family firms have ample financial resources to pursuit entrepreneurial activities. However, agency costs between family and non-family owners may curtail entrepreneurial.

2. Behavioural Agency Theory: Rooted in behavioral economics, these scholars suggest that family business owners are risk averse, wanting to hold on to existing endowment than risking it on new ventures, However the need to pass on a healthy business to the future generation may boost entrepreneurial in family firms.

3. Resource Based View: Scholars have argued that desire to keep family controlled business may curtail the access to some resources vital for entrepreneurial (like pool of competent managers). On the other hand, some scholars have argued that family firms are better in managing intangible and human resources because of their long-term horizons.

Thus, given these conceptual disparities, the authors argue that the family firm's entrepreneurial orientation is essentially determined by the firm's governance mechanisms and structures.

Firm's Governance Conditions and Entrepreneurial Orientation

Drawing from the logic of these three theories, the authors derive the governance conditions that make family firms more entrepreneurial, which are as following:

1. Family members on the board will have an incentive to monitor investments. They would like to ensure long-term profitability and renewal of the firm. Hence, they are likely to support investments in innovations

and new ventures, thereby making the family business more entrepreneurial.

2. Family insiders have intimate knowledge of business and can spot emerging opportunities. These individuals can advocate investments in new ventures. Thus, their presence on the board can make family firms more entrepreneurship oriented.

3. Board members with long tenures (owners or members supported by owners) may be poor monitors of agency problems. They may become averse to developments or lose touch with the market and emerging opportunities. This will adversely affect the firm's entrepreneurial orientation.

4. When family firms recruit CEOs and other top-level executives from a larger labour pool compared to the limited family pool, more competent and entrepreneurial top management team is likely to emerge. This is likely to promote the firm's entrepreneurial orientation.

5. Founders bring passion and entrepreneurial talent to the family firm. However, the later generation members may lack entrepreneurial zeal and may bring family conflicts in to business, which may sap resources required for entrepreneurial. Thus, presence of founder is positively associated while presence of later generation members is negatively associated with the family firm's entrepreneurial orientation.

Practical Implications

The key implication of the study for family firm’s management is for them to realize that entrepreneurial performance of their firm depends on the fined- grained aspects of governance. The firm’s emotional and resource advantages/ disadvantages and the constitution of its governance structure are the key determinants of its entrepreneurial orientation. Family firms can improve their entrepreneurial performance by overcoming their disadvantage and strengthening the advantages. An important way of ensuring this is to take early measures to setup/ revise the governance structure.

Source: *Journal of Family Business Strategy (2015), Vol. 6, No. 1, pp. 58–62.*