Chapter 9

An Examination of the Relationship Between Governance Mechanisms and Performance: Evidence from the Australian Family Business Context

Chris Graves[a], *Donella Caspersz*[b] *and Jill Thomas*[a]

[a]*The University of Adelaide Business School, Adelaide, Australia*
[b]*University of Western Australia Business School, Perth, Australia*

Abstract

Prior family business research has been dominated by an agency theory perspective, narrow definitions of what constitutes family wealth, and a preoccupation with business governance mechanisms to the exclusion of family governance mechanisms. This chapter presents the findings of examining the role of a broader range of governance mechanisms (for the business; for the family) in achieving more comprehensive wealth (economic and non-economic) family business goals in the Australian context. Based on survey responses from around 400 family businesses, the findings from this study show that both family and business governance mechanisms contribute significantly to achieving both the business's financial performance and the achievement of family-centered goals that are important to the owning family. The results also suggest that the relationship between governance and performance in the family business context is much more complex than that acknowledged in prior research and has implications for both future research and practice.

Family Firms and Family Constitution, 143–163

doi:10.1108/978-1-83797-200-520231009

Keywords: Family constitution; family council; family governance; business governance; financial performance; family-oriented performance; quantitative research; Australia

9.1. Introduction

As in most jurisdictions around the world, the corporate governance practices of Australian family businesses are predominately determined by the law (e.g., the Australian Corporations Act). Australia adopted the "Anglo-American model" of governance which is based on principles of agency theory, where company directors (the "agents") are required to act in the best interests of the organization which has been interpreted in the Australian court of law as maximizing the shareholders' (the "principals") wealth. However, we know from prior family business research that theories other than agency theory (e.g., stewardship theory) offer more promise in furthering our understanding of family business behavior and performance, and consequently, advancing the practice and research of governance in the family business context. Despite this, an agency perspective dominates prior research on the governance of family businesses with the use of narrow definitions of what constitutes family wealth and a preoccupation with *business* governance mechanisms to the exclusion of *family* governance mechanisms. Because it is commonly accepted that business families have a broader concept of "wealth," which incorporates the socioemotional objectives of a family (Gómez-Mejía et al., 2007; Holt et al., 2017), we argue it is important for family businesses to adopt governance mechanisms beyond those that focus on business goals and on the economic returns to its shareholders.

To advance our understanding of what constitutes effective governance in the family business context, this chapter presents the findings of the examination of the role of a broader range of governance mechanisms (for the business; for the family) in achieving broader wealth (economic and non-economic) goals of the family business in the Australian context. The sample used in this study was drawn from Australian family-owned businesses listed on the databases of Family Business Australia (FBA) and KPMG Australia where a survey instrument was completed by the chief decision-maker (the Chief Executive Officer). FBA is a family business membership organization whose role is to provide an education and advocacy service for family businesses in Australia. FBA and KPMG collaborate to conduct a biannual survey of family businesses in Australia that broadly assesses their status in terms of management, operational and performance indicators. Based on usable responses from 396 family businesses, the findings from this study show that both family and business governance mechanisms contribute significantly to achieving the financial performance of the business and the family-centered goals that are important to the owning family. The results also suggest that the relationship between governance and performance in the family business context is much more complex than that acknowledged in prior research, and has implications for both future research and practice.

The remainder of this chapter is organized as follows. Firstly, the following section outlines the relevant literature on governance and performance in the family business context, and the research questions to be examined in this study. Secondly, the research method used, measurement of variables and statistical method (model specification) employed in this study are presented. This is followed by a presentation of the results where the descriptive statistics and results of the regression analysis are discussed. The last section summarizes the contributions of this study, its limitations and suggestions for future research, and implications for family business owners and their advisors.

9.2. Governance, Wealth, and Performance of Family Businesses

9.2.1. Governance

Although there are a myriad of definitions of corporate governance, in its simplest form, corporate governance can be defined as "the system by which companies are directed and controlled" (Cadbury, 1992, p. 15). Such a system within a firm context often comprises not one but a number of integrated components such as policies and procedures, structures, roles, relationships, and delegated responsibilities. In the past, the purpose of corporate governance has been both narrowly and broadly defined and influenced by the underlying theoretical lens adopted (agency theory, transactional cost economics, stakeholder theory, and social capital theory to name a few). In the narrowest sense, the purpose of corporate governance is ensuring the firm achieves the goal of generating wealth for its investors (Shleifer & Vishny, 1997). However, the purpose of corporate governance is much more than ensuring economic outcomes for its capital providers. In recent times, there has been a shift toward acknowledging broader societal expectation of organizations, other than that of their capital providers, as a result of a number of spectacular cases of corporate collapses and misconduct (Tricker, 2015). In sum, corporate governance involves establishing a system that ensures the goals of the owners are achieved while at the same time meeting expectations from broader stakeholder groups.

Prior family business governance research has been preoccupied with understanding the significance of business governance rather than family governance mechanisms. Furthermore, Pindando and Requejo's (2015) review of more than 350 research articles on family business performance highlights the bias toward research on publicly-listed firms, economic measures of performance, and therefore not surprisingly, formal *business* (as opposed to *family*) governance mechanisms. Nevertheless, there is a growing interest in research into the role of family governance mechanisms in family businesses. For example, Suess's (2014) review of published research papers that specifically focused on family governance mechanisms highlighted that mechanisms such as a family council and a family constitution are researched the most while other mechanisms such as family employment selection criteria and family communication systems are yet to receive little attention. We argue that there is a need for more research on a range of different family governance mechanisms and their effect on family business outcomes such as family wealth (economic and non-economic) as discussed below.

9.2.2. Wealth and Performance of Family Businesses

In the family business literature, it has been acknowledged that the goals of business families vary from family to family and often encompass non-economic as well as economic goals (Basco, 2017; Berrone et al., 2012; Zellweger et al., 2013). The importance of considering non-economic as well as economic wealth goals is not a new phenomenon (Berrone et al., 2012; Gómez-Mejía et al., 2007). The term "wealth" originates from the Old English words "weal" (well-being) and "th" (condition). Literally, wealth means the "condition of being happy and prosperous" (Anielski, 2007, p. 16). As argued by Jensen and Meckling (1994), people care not only about financial wealth but also place value on matters such as respect, honor, power, love, and the welfare of others. Over three decades ago, Chrisman and Carroll (1984) outlined the importance (and compatibility) of organizations achieving both economic and social goals. Chrisman et al. (2003) call for a broader concept of wealth in family business research, one that takes into account both the economic and non-economic goals of business families. Yet, despite this, prior family business research has been preoccupied with research on the determinants of economic performance. As a consequence, attention to how family-centered goals interact with financial goals and influence performance of the family business has received little attention. Thus, it is no surprise to see calls for research into issues surrounding the family-centered goals and performance of family businesses (see Holt et al., 2017; Yu et al., 2012).

The preoccupation with economic goals and outcomes is evident in research on family business governance. Specifically, the majority of prior studies of the effect of governance on family business performance has focused on financial outcomes such as market value or profitability of the family business (see Pindado & Requejo, 2015 for an extensive review). This has been to the exclusion of examining how family governance mechanisms can assist family businesses in achieving family-centered goals, such as family cohesiveness and identity in the community, in addition to its economic goals. As a consequence, little is known as to whether family governance mechanisms are also important for achieving family-centered goals (in addition to the financial goals) of the family. We argue that given its uniqueness as an organizational form that entwines the family in the business, there needs to be a reorientation toward a broader concept of wealth in family business governance research so that the relationship between family business governance and family business performance can be examined in a more holistic manner (Graves et al., 2016). Through broadening family business research to include achievement of financial and family-centered goals, a more refined analysis of the influence of different business and family governance mechanisms can be explored.

9.3. Research Questions

In summary, we argue that research on the governance in the family business context has been hindered due to using narrow definitions of what constitutes wealth and a preoccupation with business governance mechanisms. We believe that by broadening measures of wealth to include achievement of financial and family-centered goals, and measures of governance mechanisms to include a broad range of family governance mechanisms, we can advance understanding of how governance (and the types of mechanisms used in combination) affects outcomes experienced by family businesses. As a consequence, in this study, we examine the following research questions:

> *RQ1.* To what extent do *business* governance mechanisms assist family business owners to achieve their financial and family-centered goals?
>
> *RQ2.* To what extent do *family* governance mechanisms assist family business owners to achieve their financial and family-centered goals?

9.4. Research Method

In this study, data were collected through a survey of firms to examine the influence of different governance mechanisms on family business performance. Drawing on survey instruments developed in previous academic research, a 73-question survey instrument was developed with the assistance of business researchers, business owners, and advisors. The questionnaire contained six sections: key decision-maker profile; aspects of ownership, governance, and management; family issues (family goals and achievement, management and ownership succession); business issues (including goals and performance, strategies, intentions); exit and succession issues; and firm characteristics.

The sample used in this study was drawn from Australian family-owned businesses listed on the FBA and KPMG databases. Over 6,000 Australian privately owned (i.e., unlisted) firms were selected to give a representative sample of the Australian family business sector. In 2013, the questionnaire was sent to the chief decision maker (the Chief Executive Officer) together with a covering letter which explained the purpose of the study. Follow-up correspondence was sent 2 weeks after the initial questionnaire was distributed, resulting in 570 completed questionnaires (response rate of 9.5%). Because this study focuses on the use of formal governance mechanisms, such as the use of a formal board of directors or a shareholders agreement, data from family businesses legally organized as companies were used. After removing questionnaires which did not complete every question required for this study, a total of 396 usable questionnaires from family companies remained.

9.4.1. Measurement of Variables

9.4.1.1. Dependent Variables (Financial Performance and Family-Oriented Performance)

As highlighted in the Introduction section, this study focuses on two different measures of performance, namely, achievement of financial goals (financial performance) and achievement of family-oriented goals (family-oriented performance). In a review of family business outcomes which have been used in prior research, Yu et al. (2012) highlight that measures of business and family goals and performance remain underdeveloped and an area for future research. To date, there are no universally accepted instruments to measure financial and non-economic performance of family-owned enterprises. As a consequence, researchers must draw on previous research to develop measures of goals of relevance to family businesses. Thus five items were drawn from the work by Gupta and Govindarajan (1984) and Richard et al. (2009) to measure the financial goals of the business. These included goals relating to net profit, cash flow, return on sales, return on assets, and sales growth. Respondents were asked to indicate the importance of each of the five items using a scale that ranged from one (not important at all) to five (extremely important). Respondents were also asked to assess the business's performance in each of the five items relative to their major competitors using a scale that ranged from one (much worse) to seven (much better). A weighted measure of the performance for each of the five items was calculated by multiplying the importance rating for an item by its performance rating (Westhead & Howorth, 2006). For example, if a respondent rated the goal "net profit" as extremely important (score of 5) and the business's performance in this goal as the same as others in their industry (score of 4), the business's overall weighted score of performance for the item "net profit" is 20 (5 × 4).

The work of Sorenson (1999, 2000) was drawn on to measure eight family-oriented goals which families are argued to pursue through their ownership and control of a business. These included goals relating to quality of work life, time to be with family, security for the family, increasing family wealth, independence, family cohesiveness, family respect in the community, and satisfaction/fulfilment. As with the business goals, respondents were asked to indicate the importance of each of the eight family-centric goal items using a scale that ranged from one (not important at all) to five (extremely important). Respondents were also asked to assess how satisfied the owning family was with the level of achievement in each of the eight family-centric goals using a scale that ranged from one (completely dissatisfied) to seven (completely satisfied). A weighted measure of performance for each of the eight family-centric items was calculated by multiplying the importance rating for an item by its satisfaction of achievement rating.

In summary, 13 weighted measures of performance were calculated (five business performance measures, eight family-centric performance measures). Principal Component Analysis (PCA) was used to reduce these 13 measures to two composite measures of performance of the family business. As discussed later under data analysis, these overall composite measures are related to the following areas of performance: (1) family-oriented performance achieved through the business, and (2) financial performance of the business. This procedure is discussed in more detail in the "validity" section below.

9.4.1.2. Governance Variables

Respondents were presented with 16 different types of governance mechanisms to govern the business and the family. These included:

a. Business governance mechanisms:
   - Formal board of directors (yes/no)
   - Undertook independent assessment of the formal board performance (yes/no)
   - Formal advisory board (yes/no)
   - Formal evaluation of management performance (yes/no)
   - Policy for the employment, remuneration, and promotion of family members (yes/no)
   - Shareholders' agreement (yes/no)
   - Formal reporting of business matters to shareholders (yes/no)
b. Family governance mechanisms
   - Family council (yes/no)
   - Family constitution/code of conduct (yes/no)
   - Process for incorporating the family vision/goals into the business planning process (yes/no)
   - Formal reporting of business matters to family members (yes/no)
   - Process for welcoming, educating, inducting family members into the business (yes/no)
   - Documented succession planning for (options included "agreed and documented," "under development," and "no"):
     - Unifying strategy for the future of the family business
     - Succession plan for current CEO
     - Succession plan for other family members in senior leadership roles
     - Estate plans (including how ownership will be distributed)

9.4.1.3. Control Variables

Because performance and governance practices may vary according to the lifecycle of the business and the family, the following control variables were used:

- Firm age (from establishment): measured in years.
- Firm size: measured using a seven-item ordinal variable, ranging from one (0–4 employees) to seven (300+ employees).
- Industry: Using ANZIC (Australian and New Zealand Industrial Classification) as a guide, firms were classified according to one of six industry

categories (agriculture, construction, manufacturing, retail, wholesale, other). As the "Other" contained the greatest number of firms, this was used as the reference category when undertaking the statistical analysis. That is, all except the "Other" category were included in the models below (n – 1 = 5 categories included).

- Generation in control: to control for firms that had undergone a succession event, firms were classified as either first generation or second and later generation firms.

The following two models were subsequently formulated:

$$\text{Financial performance} = \beta_0 + \beta_{1\text{–}16}(\text{governance mechanisms}) + \beta_{17}(\text{firm age}) + \beta_{18}(\text{firm size}) + \beta_{19\text{–}24}(\text{firm industry}) + \beta_{25}(\text{generation in control}) + \varepsilon$$

$$\text{Family-oriented performance} = \beta_0 + \beta_{1\text{–}16}(\text{governance mechanisms}) + \beta_{17}(\text{firm age}) + \beta_{18}(\text{firm size}) + \beta_{19\text{–}24}(\text{firm industry}) + \beta_{25}(\text{generation in control}) + \varepsilon$$

9.4.2. Validity

The questionnaire was piloted with family business stakeholders (academics, practitioners, and family business owners), and the feedback received was incorporated into the final questionnaire. Convergent validity was used to assess the reliability of the measures of firm goals. As highlighted above, PCA (utilizing varimax rotation) was used to develop two composite measures of firm performance, financial performance, and family-oriented performance. In total, 2 of the 13 items were removed from the PCA because their communality scores were below the 0.50 cut-off (Hair et al., 2010) (items were sales growth and family control). Component loadings for the different measures were as follows: "family-oriented performance" achieved through the business (7 items with loadings from 0.604 to 0.794) and "financial performance" of the business (4 items with loadings from 0.712 to 0.775). Both measures of performance had Cronbach alphas above the recommended 0.6 (0.870 and 0.811, respectively) for exploratory measures (Hair et al., 2010) and are consistent with levels reported in other studies (see, for example, Koropp et al., 2013).

To ascertain concerns regarding multicollinearity, the Pearson matrix was used. There were no correlation values between explanatory variables that reach 0.5. Furthermore, potential multicollinearity is further examined through the estimation of the Variance Inflation Factor (VIF). VIF values of all of the independent and control variables are below 2. Based on these two tests, there are no concerns regarding the possible effect of multicollinearity on the regression results.

9.5. Results

9.5.1. Descriptive Statistics

Descriptive statistics of the firms included in the quantitative analysis are presented in Table 9.1. With regard to the control variables, the median age of firms was 38 years, and they employed on average between 20 and 49 employees (ordinal variable of 3 = 20–49 employees). Twenty-five percent of firms operated in manufacturing industries, 12% in construction, 10% in retail, 9% in wholesale, and 8% in agriculture. The remaining firms were spread across a range of other smaller industries (classified as "other" and used as the control group for regression analysis). Fifty-nine percent of firms were second or later generation controlled family businesses (that is, 41% were first generation family controlled).

With regard to business governance mechanisms, 45% had a formal board of directors and of these firms, only 3% had undertaken an independent assessment of board performance. Twenty-four percent had a formal advisory board in place. Fifty-one percent undertook a formal assessment of managerial performance while 26% had a formal policy for the selection, remuneration and promotion of family employees. Thirty-six percent had a formal shareholders' agreement in place, 48% formally reported business matters to all shareholders while 42% formally reported business matters to family members.

With regard to family governance mechanisms, 21% had a family council in place while 16% had developed a family constitution/code of conduct. Twelve percent had a process in place for welcoming, educating and inducting family members into the business while 37% had a process for incorporating the family's vision and goals into the business planning process. With regard to family governance of management and ownership succession, 18% had documented a unifying strategy for the future of the family business. Thirty-one percent had documented a succession plan for the current CEO while 20% had a documented succession plan in place for other family members in key leadership positions. Thirty percent had an estate plan in place (including how ownership will be distributed).

9.5.2. Effect of Governance Mechanisms on Family-Oriented Performance

Table 9.2 presents the results of the regression analysis of the effect of the 16 different governance mechanisms on family-oriented performance. The composite measure of family-oriented performance included measures of the level of achievement of family-related goals such as increasing family wealth, quality of work life, time to be with family, security for the family, independence, family cohesiveness, family respect in the community, and satisfaction/fulfilment.

Business governance mechanisms: it was found that having a formal advisory board ($p < 0.10$), policy for the employment, remuneration and promotion of family members ($p < 0.10$), and formal reporting of business matters to family members ($p < 0.01$), were all positively and significantly associated with family-oriented performance.

Table 9.1. Descriptive Statistics of Firms Surveyed.

Variable	Mean	Median	Min.	Max.	S.D.
Formal board of directors	0.45	0.00	0.00	1.00	0.50
Formal board x Independent assessment of board	0.03	0.00	0.00	1.00	0.18
Formal advisory board	0.24	0.00	0.00	1.00	0.43
Evaluation of management performance	0.51	1.00	0.00	1.00	0.50
Policy for selection, remuneration & promotion of family employees	0.26	0.00	0.00	1.00	0.44
Shareholders' agreement	0.36	0.00	0.00	1.00	0.48
Formal reporting of business matters to shareholders	0.48	0.00	0.00	1.00	0.50
Formal reporting of business matters to family members	0.42	0.00	0.00	1.00	0.49
Family council	0.21	0.00	0.00	1.00	0.41
Family constitution / code of conduct	0.16	0.00	0.00	1.00	0.36
Process for welcoming, educating, inducting family members into business	0.12	0.00	0.00	1.00	0.33
Process for incorporating family vision / objectives into business planning	0.37	0.00	0.00	1.00	0.48
Succession plan - Unifying strategy for the future of the business	0.18	0.00	0.00	1.00	0.38
Succession plan - CEO	0.31	0.00	0.00	1.00	0.46
Succession plan - Other senior positions held by family members	0.20	0.00	0.00	1.00	0.40
Succession plan - Estate plans (inc. how ownership will be distributed)	0.30	0.00	0.00	1.00	0.46
Firm age	47.09	38.00	1.00	184.00	36.44
Firm size	3.24	3.00	1.00	7.00	1.61
Industry_Agriculture	0.08	0.00	0.00	1.00	0.27
Industry_Construction	0.12	0.00	0.00	1.00	0.33
Industry_Manufacturing	0.25	0.00	0.00	1.00	0.43
Industry_Retail	0.10	0.00	0.00	1.00	0.30
Industry_Wholesale	0.09	0.00	0.00	1.00	0.29
Generation in control: 1st vs. 2nd+	1.59	2.00	1.00	2.00	0.49

Family governance mechanisms: a process for welcoming, educating, inducting family members into the business was positively and significantly associated ($p < 0.10$) with family-oriented performance. All four mechanisms for governing future management and ownership transitions were significantly and positively associated with family-oriented performance (documented unifying strategy for future of family business, $p < 0.01$; documented CEO succession plan, $p < 0.01$; documented succession plan for other family leaders, $p < 0.05$; documented estate plans, $p < 0.01$).

Control variables: family businesses operating in the wholesale industry were significantly more likely to experience higher family-oriented performance ($p < 0.05$ in all cases).

9.5.3. Effect of Governance Mechanisms on Financial Performance

Table 9.3. presents the results of the regression analysis of the effect of the 16 different governance mechanisms on financial performance. The composite measure of financial performance included measures of performance in outcome-based financial goals, namely, profitability, cash flow, return on sales, and return on assets.

Business governance mechanisms: it was found that having a formal board of directors that is independently assessed for effectiveness/performance was positively and significantly ($p < 0.10$) associated with financial performance. Also, having a formal advisory board was positively significant ($p < 0.05$). Formal reporting of business matters to shareholders and family members was positively and significantly associated with financial performance ($p < 0.05$ and $p < 0.01$, respectively).

Family governance mechanisms: having a family council, a family constitution and a process for welcoming, educating, inducting family members into the business were all positively and significantly associated with financial performance (all $p < 0.05$). With regard to governing future management and ownership transitions, having documented succession plans for the CEO and family members in senior leadership roles were both positively and significantly associated with financial performance ($p < 0.05$ and $p < 0.10$, respectively).

Control variables: there is some support for the positive and significant association between firm size and financial performance ($p < 0.10$). Family businesses operating in the manufacturing industry were significantly more likely to experience lower financial performance (min $p < 0.05$ in all cases) and is consistent with the decline of the Australian manufacturing sector due to well-documented poor cost competitiveness.

9.6. Discussion

In the absence of adequate governance mechanisms, business goals can be placed in jeopardy because family goals may not be met. As Moores (2009, p. 8) notes, "The lack of effective governance structure in family business to help sort out

Table 9.2. Regression Analysis of Family-Oriented Performance.

FAMILY-ORIENTED PERFORMANCE	β	β	β	β	β	β	β	β	β	β	β	β	β	β	β	β	β
Formal board of directors		0.039															
Formal board x Independent assessment of board			−0.005														
Formal advisory board				0.095*													
Evaluation of management performance					0.023												
Policy for selection, remuneration & promotion of family employees						0.102*											
Shareholders' agreement							0.043										
Formal reporting of business matters to shareholders								0.049									
Formal reporting of business matters to family members									0.164***								

(*Continued*)

Table 9.2. (*Continued*)

FAMILY-ORIENTED PERFORMANCE	β	β	β	β	β	β	β	β	β	β	β	β	β	β	β	β	β
Family council										0.049							
Family constitution / code of conduct											0.051						
Process for welcoming, educating, inducting family members into business												0.100*					
Process for incorporating family vision / objectives into business planning													0.066				
Succession plan - Unifying strategy for the future of the business														0.165***			
Succession plan - CEO															0.169***		
Succession plan - Other senior positions held by family members																0.135**	

(*Continued*)

Table 9.2. (*Continued*)

FAMILY-ORIENTED PERFORMANCE	β	β	β	β	β	β	β	β	β	β	β	β	β	β	β	β	β
Succession plan - Estate plans (inc. how ownership will be distributed)																	0.163***
Firm age	0.059	0.054	0.039	0.090	0.051	0.027	0.063	0.078	0.082	0.056	0.057	0.056	0.060	0.057	0.048	0.065	0.056
Firm size	0.039	0.048	0.057	0.008	0.056	0.003	0.016	0.029	0.023	0.051	0.043	0.043	0.045	0.038	0.039	0.033	0.032
Industry_ Agriculture	−0.030	−0.043	−0.053	−0.024	−0.048	−0.040	−0.031	−0.044	−0.028	−0.028	−0.027	−0.024	−0.029	−0.026	−0.038	0.032	−0.034
Industry_ Construction	−0.014	−0.022	−0.052	−0.034	−0.022	−0.019	−0.019	−0.040	−0.002	−0.013	−0.012	−0.004	−0.009	−0.012	−0.024	0.014	−0.009
Industry_ Manufacturing	−0.050	−0.050	−0.045	−0.064	−0.038	−0.076	−0.041	−0.066	−0.034	−0.036	−0.038	−0.033	−0.034	−0.036	−0.048	−0.060	−0.032
Industry_Retail	0.042	0.013	0.002	0.008	−0.012	0.024	0.022	0.001	0.004	0.044	0.042	0.050	0.046	0.052	0.033	0.035	0.046
Industry_ Wholesale	0.146***	0.151**	0.143**	0.151**	0.145**	0.148**	0.164***	0.147**	0.167***	0.157***	0.153***	0.148**	0.148**	0.139**	0.135**	0.151**	0.143**
Generation in control: 1st vs. 2nd+	−0.059	−0.087	−0.059	−0.111*	−0.076	−0.101	0.094	−0.078	−0.112*	−0.079	−0.080	−0.075	−0.080	−0.077	−0.077	−0.079	−0.084
R2	0.036	0.040	0.037	0.051	0.038	0.051	0.042	0.043	0.069	0.040	0.040	0.047	0.042	0.062	0.065	0.055	0.061
F statistic	1.803*	1.477	1.349	1.866*	1.510	1.796*	1.524	1.606	2.601***	1.521	1.669	1.821*	1.597	2.405**	2.570***	2.134**	2.361**
Observation	396	331	324	324	327	307	321	329	326	340	340	340	340	337	340	340	337

***$p < 0.01$.

**$p < 0.05$.

*$p < 0.10$.

issues over the control and management of the family business can all too easily give rise to unnecessary intra-family conflict." Family business must therefore be cognisant of the value of the business for both the family and the business. As Chua et al. (2003, p. 331) argue,

> For a business to be sustainable as a family firm in the highly competitive global market of the twenty-first century there must be a synergistic and symbiotic relationship between the family and the business. The business must perform in a way that creates value for the family and the family must add value to the business in a manner that is impossible without family involvement.

The findings from this study suggest that both family and business governance mechanisms are associated with both the financial performance of the business as well as the achievement of family-oriented goals which includes aspects such as family cohesiveness, independence, and identity in the community.

On the one hand, and perhaps intuitively, one would have expected the results to indicate that business governance mechanisms are important for financial performance of the business while family governance mechanisms are important for family-oriented performance. However, the findings of this study suggest that some family and business governance mechanisms are positively and significantly associated with both financial and family-oriented performance. For example, establishing a formal advisory board was positively and significantly associated with both financial and family-oriented performance. Also, establishing a succession plan for the CEO and other key family members was positively and significantly associated with both financial and family-oriented performance.

On the other hand, one would have intuitively expected that the two most advocated family governance mechanisms, having a family council and development of a family constitution, would be positively and significantly associated with family-oriented performance. However, these mechanisms were found not to be associated with family-oriented performance. In contrast, a family council and a family constitution were positively and significantly associated with the financial performance of the business.

The above findings suggest that the interrelationship between governance (of the business and of the family) and performance is much more complex than that previously observed. As highlighted in the limitations section of this chapter, one of the challenges with the approach taken in this study is how each governance mechanism is examined in isolation. Such an approach ignores the possibility that effective governance is achieved through the combination of governance mechanisms. The approaches by Berent-Braun and Uhlaner (2012) in developing a family governance index represent an interesting development and a possible direction for future research in examining the effect of family governance on family business outcomes.

Table 9.3. Regression Analysis of Financial Performance.

FINANCIAL PERFORMANCE	β	β	β	β	β	β	β	β	β	β	β	β	β	β	β	β	β
Formal board of directors		0.052															
Formal board x Independent assessment of board			0.103*														
Formal advisory board				0.123**													
Evaluation of management performance					0.074												
Policy for selection, remuneration & promotion of family employees						−0.010											
Shareholders' agreement							0.012										
Formal reporting of business matters to shareholders								0.129**									
Formal reporting of business matters to family members									0.182***								
Family council										0.126**							
Family constitution / code of conduct											0.138**						

(*Continued*)

Table 9.3. (*Continued*)

FINANCIAL PERFORMANCE	β	β	β	β	β	β	β	β	β	β	β	β	β	β	β	β	β
Process for welcoming, educating, inducting family members into business												0.131**					
Process for incorporating family vision / objectives into business planning													0.041				
Succession plan - Unifying strategy for the future of the business														0.079			
Succession plan – CEO															0.112**		
Succession plan - Other senior positions held by family members																0.105*	
Succession plan - Estate plans (inc. how ownership will be distributed)																	−0.017
Firm age	−0.037	−0.066	−0.052	−0.039	−0.061	−0.057	−0.055	−0.044	−0.053	0.062	−0.059	−0.059	−0.054	−0.050	−0.062	−0.050	−0.049
Firm size	0.125**	0.094	0.084	0.080	0.056	0.107*	0.103*	0.070	0.056	0.096*	0.074	0.096*	0.107*	0.107*	0.103*	0.096*	0.119**
Industry_Agriculture	−0.025	−0.054	−0.053	−0.057	−0.051	−0.076	−0.061	−0.056	−0.066	−0.035	−0.034	−0.029	−0.035	−0.035	−0.041	−0.038	−0.035

(*Continued*)

Table 9.3. (*Continued*)

FINANCIAL PERFORMANCE	β	β	β	β	β	β	β	β	β	β	β	β	β	β	β	β	β
Industry_Construction	−0.030	−0.041	−0.023	−0.043	−0.026	−0.060	−0.040	−0.042	−0.023	−0.020	−0.019	−0.014	−0.026	−0.030	−0.035	−0.028	−0.033
Industry_Manufacturing	−0.135**	−0.179***	−0.141**	−0.187***	−0.160**	−0.198***	−0.179***	−0.190***	−0.187***	−0.152**	−0.159**	−0.153**	−0.158**	−0.159**	−0.167***	−0.177***	−0.160**
Industry_Retail	−0.019	−0.044	−0.032	−0.025	−0.017	−0.031	−0.045	−0.012	−0.011	−0.002	−0.009	−0.003	−0.014	−0.017	−0.022	−0.021	−0.024
Industry_Wholesale	−0.007	−0.001	0.009	0.000	0.004	−0.003	0.005	−0.006	0.003	0.026	0.018	0.005	0.006	0.005	−0.002	0.008	0.008
Generation in control: 1st vs. 2nd+	0.030	0.067	0.069	0.066	0.081	0.085	0.068	0.039	0.077	0.057	0.055	0.066	0.061	0.060	0.063	0.062	0.062
R2	0.029	0.042	0.045	0.056	0.040	0.048	0.041	0.054	0.074	0.053	0.055	0.055	0.040	0.044	0.051	0.049	0.038
F statistic	1.470	1.560	1.787*	2.085**	1.479	1.672*	1.482	2.024**	2.833***	2.070**	2.152**	2.139**	1.533	1.659*	1.956**	1.888*	1.428
Observation	396	331	324	324	327	307	321	329	326	340	340	340	340	337	340	340	337

***$p < 0.01$.

**$p < 0.05$.

*$p < 0.10$.

9.7. Limitations

Firstly, because this study employed a cross-sectional as opposed to a longitudinal data collection method, we cannot attest to the causal nature of the statistically significant associations between governance mechanisms reported. Secondly, as each governance mechanism was examined in isolation while controlling for firm-level characteristics, we are unable to ascertain whether effective governance is achieved through the combination of governance mechanisms. Finally, as this study was based on Australian family firms, the findings reported may not be generalizable to other geographical contexts which are subject to different governance models and legislation.

9.8. Implications for Practice

There are many implications that emerge from this research. Arguably of greatest importance is the need to value, and hence encourage family businesses to implement, effective family governance mechanisms that assist business families in achieving both their financial and family-oriented goals. The findings from this study highlight that the relationship between governance and family business performance is much more complex than that acknowledged in prior research. Rather than simplistically adopting mechanisms in isolation (e.g., a board or a family council), careful consideration needs to be given by both family business members and their advisors about how a range of business and family governance mechanisms can be used together to drive family business performance. The research here shows that there is an "emotional value" in owning a family firm (Zellweger & Astrachan, 2008) that cannot be disregarded. Thus, education for both family members and their advisors is needed to respond to this challenge, so that family firms are better able to manage these dynamics so that they can further the sustainability and performance of the family business.

9.9. Implications for Future Research

For too long studies of family business governance have been preoccupied with understanding the relationship between corporate governance and financial outcomes. The research shows that scholars need to extend their theoretical lens beyond perspectives such as agency theory and stakeholder theory in analyses of governance. Instead, scholars need to engage not only with theories such as behavioral agency (Gómez-Mejía et al., 2007), but also perspectives that seek to untangle the influence of emotions on family business decision-making. This may include drawing on theoretical insights such as emotional ownership (Björnberg & Nicholson, 2012) and family business ownership (Brundin et al., 2014), both of which seek to conceptualize how decision-making in family business not only reflects financial imperatives of corporate governance but – as we have shown here – the socioemotional goals of the family.

Future research should seek to better untangle how the specific components of family business governance affect family business performance. The findings of this study suggest that a family council and a family constitution improve financial performance of the business but not the achievement of family-oriented goals. Further research is required to further understand why this might be including whether particular governance mechanisms in combination are more effective in improving family business performance. However, there may be different effects in accordance with different strategies of family council or constitution on family business performance. Importantly, while we have presented the outcomes of quantitative analysis, a longitudinal qualitative approach will help to nuance the aspects of family business governance in terms of the effect on performance. For instance, how conflict is handled and how matters of succession are also embedded in processes of family business governance will affect how mechanisms where family members have to engage with each other (such as in a family council) are affected by these matters, which in turn can affect performance achieved.

References

Anielski, M. (2007). *The economics of happiness, discovering genuine wealth*. New Society Publishers.

Basco, R. (2017). Where do you want to take your family firm? A theoretical and empirical exploratory study of family business goals. *BRQ Business Research Quarterly*, *20*(1), 28–44.

Berent-Braun, M. M., & Uhlaner, L. M. (2012). Family governance practices and teambuilding: Paradox of the enterprising family. *Small Business Economics*, *38*(1), 103–119.

Berrone, P., Cruz, C., & Gomez-Mejia, L. R. (2012). Socioemotional wealth in family firms: Theoretical dimensions, assessment approaches, and agenda for future research. *Family Business Review*, *25*(3), 258–279.

Björnberg, Å., & Nicholson, N. (2012). Emotional ownership: The next generation's relationship with the family firm. *Family Business Review*, *25*(4), 374–390.

Brundin, E., Samuelsson, E. F., & Melin, L. (2014). Family ownership logic: Framing the core characteristics of family businesses. *Journal of Management & Organization*, *20*(1), 6–37.

Cadbury, A. (1992). *Cadbury report: The financial aspects of corporate governance*. Tech reprt, HMG, London.

Chrisman, J. J., & Carroll, A. B. (1984). SMR forum: Corporate responsibility – reconciling economic and social goals. *Sloan Management Review*, *25*(2), 59–65.

Chrisman, J. J., Chua, J. H., & Litz, R. (2003). A unified systems perspective of family firm performance: An extension and integration. *Journal of Business Venturing*, *18*(4), 467–472.

Chua, J. H., Chrisman, J. J., & Steier, L. P. (2003). Extending the theoretical horizons of family business research. *Entrepreneurship Theory and Practice*, *27*(4), 331–338.

Gómez-Mejía, L. R., Haynes, K. T., Núñez-Nickel, M., Jacobson, K. J. L., & Moyano-Fuentes, J. (2007). Socioemotional Wealth and Business Risks in Family-controlled Firms: Evidence from Spanish Olive Oil Mills. *Administrative Science Quarterly*, *52*(1), 106–137.

Graves, C., Caspersz, D., & Thomas, J. (2016) An examination of the influence of family and business governance mechanisms on family business performance. In *Proceedings of EURAM Annual Conference*, Paris.

Gupta, A. K., & Govindarajan, V. (1984). Business unit strategy, managerial characteristics, and business unit effectiveness at strategy implementation. *Academy of Management Journal*, *27*(1), 25–41.

Hair, J. F., Black, W. C., Babin, B. J., & Anderson, R. E. (2010). *Multivariate data analysis: A global perspective*. Pearson.

Holt, D. T., Pearson, A. W., Carr, J. C.,& Barnett, T. (2017). Family firm (s) outcomes model: Structuring financial and nonfinancial outcomes across the family and firm. *Family Business Review*, *30*(2), 182–202.

Jensen, M. C., & Meckling, W. H. (1994). The nature of man. *Journal of Applied Corporate Finance 7*(2), 4–19.

Koropp, C., Grichnik, D., & Kellermanns, F. (2013). Financial attitudes in family firms: The moderating role of family commitment. *Journal of Small Business Management*, *51*(1), 114–137.

Moores, K. (2009). KPMG and FBA Australian Family Business Survey: KPMG Australia.

Pindado, J., & Requejo, I. (2015). Family business performance from a governance perspective: A review of empirical research. *International Journal of Management Reviews*, *17*(3), 279–311.

Richard, P. J., Devinney, T. M., Yip, G. S., & Johnson, G. (2009). Measuring organizational performance: Towards methodological best practice. *Journal of Management*, *35*(3), 718–804.

Shleifer, A., & Vishny, R. W. (1997). A survey of corporate governance. *The Journal of Finance 52*(2), 737–782.

Sorenson, R. L. (1999). Conflict management strategies used by successful family businesses. *Family Business Review*, *12*(4), 325–340.

Sorenson, R. L. (2000). The contribution of leadership style and practices to family and business success. *Family Business Review*, *13*(3), 183–200.

Suess, J. (2014). Family governance – Literature review and the development of a conceptual model. *Journal of Family Business Strategy*, *5*(2), 138–155.

Tricker, B. (2015). *Corporate governance: Principles, policies, and practices*. Oxford University Press.

Westhead, P., & Howorth, C. (2006). Ownership and management issues associated with family firm performance and company objectives. *Family Business Review*, *19*(4), 301–316.

Yu, A., Lumpkin, G., Sorenson, R. L., & Brigham, K. H. (2012). The landscape of family business outcomes: A summary and numerical taxonomy of dependent variables. *Family Business Review 25*(1), 33–57.

Zellweger, T. M., & Astrachan, J. H. (2008). On the emotional value of owning a firm. *Family Business Review*, *21*(4), 347–363.

Zellweger, T. M., Nason, R. S., Nordqvist, M., & Brush, C. G. (2013). Why do family firms strive for nonfinancial goals? An organizational identity perspective. *Entrepreneurship Theory and Practice*, *37*(2), 229–248.