Governance in Family Business Groups: Resolving Multiple Contingencies to Sustain Entrepreneurial Capability

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Introduction

Family business groups (hereinafter, FBGs) are an important, and in some countries a dominant, part of the economic landscape the world over. The prevalence of FBGs spans a variety of economic and political systems. Many FBGs have survived and grown over a number of centuries, in spite of major upheavals in their environment – be it World Wars, changes in political systems, governments and national boundaries, global recessions and financial crises, and other major changes in the world order. It is therefore not surprising that there is an increasing interest among scholars to understand FBGs as an economic, social, and political phenomenon from a variety of perspectives.

FBGs are formed at the intersection of the entrepreneurial family, the institutional context, and the ownership system that distributes the risk corresponding to the business opportunities. In many cases, the development of the FBG starts because of the succession as the ownership structure become more complex, and consequently the goal diversity within the business increases. An FBG structure meets the entrepreneurial family's challenge to manage and keep control over in expanding businesses (Colli and Colpan 2016), and strive for different kind of goals (e.g economic and non-economic). Also possibilities to utilize and allocate resources within the group promotes the development of FBGs.

FBGs offer a unique context in which to study governance. A number of studies on FBG governance have been done in the finance area, especially with respect to a particular set of objectives (for example, with a focus on economic returns to investors as the primary performance variable) or from the perspective of the specific ownership structure (especially pyramidal structures) (for example, see Masulis et al., 2011; also, see Colli and Colpan, 2016 for a review). However, there has also been a call for studies that can take a wider perspective (Colli and Colpan, 2016). In FBGs, there are typically multiple owners at multiple levels (for example, at group level and business level) and participating in different roles (for example, the role of owner, leader, board member, business unit manager, functional manager, etc.) in one or more businesses. This context sets up a fruitful arena in which to examine governance at multiple levels, for example examining the owners' objectives for their ownership; the owner's influence over the company in different roles; and owner–owner interaction and its meaning for the development and operations of the individual company as well as the whole business group.

Governance is the system used to articulate owners' goals, managing and even enlarging the commonality among these goals via specific structures, mechanisms, and processes in order to establish the strategic direction of the firm, provide the requisite resources, and monitor the accomplishment of agreed goals. Because of the multiplicity of owners and the multiple ways in which they are connected to each other in an FBG, an FBG is the context where good governance may matter the most. Hence, exploring critical governance issues in FBGs makes an important contribution to developing knowledge about FBGs' effectiveness in a variety of dimensions.

In this chapter, we provide an overview of how governance issues emerge and are structured in an FBG. The chapter starts with a discussion about the governance in general. We then present the peculiarities of family business governance, the overview of the development of FBGs, an examination of the goals, and the meaning of the goal of congruence in FBG governance. Since owners' goals creates the basis for governance, we build up this examination from the owners' point of view. We do not assume that owners' goals are primarily financial or economic – rather, our exposition allows owners a wide latitude to hold all kinds of goals. Next, we examine governance systems from the perspective of their formality or informality, and if they are isomorphic or based on family idiosyncrasies. We describe FBG governance as a flexible, evolving system, which should adapt to the changing contexts and contingencies, aiming at achieving the owners' goals and ultimately sustaining entrepreneurial capability in the FBG. We conclude with implications and some prescriptions that emerge from our framework, and suggest several research questions to advance knowledge in this area.

The meaning of the context and goals for governance

Governance begins with the goals of the owners, and tackling governance may lead to articulating and accomplishing the goals that the owners expect to accomplish via the business. Accomplishment of goals is a crucial objective of governance, and a large divergence between goals and actual performance is therefore ultimately an indictment of governance.

Enhancing goal congruency, which is the degree to which participants agree with the goals, is an important function of governance. The term *goal congruency* has been noted to enhance the perception of the group goals and the effectiveness of group activities to achieve these goals (Vancouver and Schmitt, 1991). Goal congruence has been linked to various benefits - for example, positive behaviour of group members/employees, stronger commitment to the organization, and avoiding harmful activities (Vancouver et al., 1994). From the perspective of the traditional principal-agent setting, the goal congruence between owners and managers may enhance the managers' acceptance of the organization's strategy (Bouillon et al., 2006). The goal congruence includes many aspects that promote the organizations to perform better. In the growing family business, the congruent goals enable business development, and in turn, incongruence in goals will effectively prevent it. A classic example is the case where some of the family owners aim at business growth, and are willing to invest business profits back into the business, but the rest prefer to harvest income from the current business in the form of dividends. Also, even in cases of relatively high goal alignment, there should also be reasonable consensus about the priority of the chosen goals (see for example, Colbert et al., 2008). A well-functioning governance system (comprising of structures, mechanisms and processes) can lead to the identification and enlargement of common goals, the effective communication of the goals to operational managers and the provision of the necessary resources for the accomplishment of the goals, and monitoring performance relative to the goals.

Operations involve, inter alia, developing technically feasible and economically responsible actions within the boundaries of owners' goals, and this is done by the managers of the organization. Thus, a governance system runs the entire gamut of structures, systems and processes that owners use to provide a broad oversight of managerial behaviour that pursues the owners' goals. It is about laying out the domains and boundaries of managerial authority and responsibility. Within the articulated domain, governance provides freedom to managers to develop specific strategies and operational plans in order to deliver the owners' goals and vision, and it covers not only a combination of structures and mechanisms, but also the relations and interactions between relating actors.

Governance in the context of widely held public corporations has been the subject of research for years (see, for example, Walsh and Seward, 1990; Sundaramurthy and Lewis, 2003). A significant focus of research has been on agency-theoretical assumptions about self-interested executives and the resultant need to protect shareholders' interests from executives' opportunistic behaviour (Daily et al., 2003). In the family business context, it has been claimed that an alignment of ownership and management within a family business alleviates the agency problem and eliminates the agency costs of ownership (Jensen and Meckling, 1976). However, some scholars (for example, Schulze et al. 2001; Gomez-Mejia et al., 2001) have argued that there could also be agency problems in family businesses, although the origin of the problems may vary due to the distinctive elements of family businesses. However, the relative scale of agency cost in the family businesses could be lower than those of widely held firms, especially if managers are also family-member owners and the goals of the family business incorporate the goals of these members. Research on governance in family businesses has found concentrating on the agency-theoretical perspective to be too narrow, and therefore, the theoretical base of governance research has expanded with the addition of other perspectives: for example, stewardship theory, the resource-based view and the social capital perspective (Goel et al., 2014).

Family business governance

A desire for continuity through ownership and management succession is one of the defining characteristics of a family business (see, for example, Churchill and Hatten, 1987). This has several consequences for family business governance. First, due to intergenerational succession, there are periodic changes in the firm ownership and management. Secondly, the need for continuity affects the principles guiding family business goal setting and risk taking (Williams et al., 2018). Thirdly, together with the development of the ownership from generation to generation (Gersick et al., 1997), the complexity of the ownership and, consequently, the family-business system tends to increase, directly affecting the tasks set for governance.

Family businesses have peculiarities that are typical of them. For example, concentrated family ownership (see, for example, Aguilera and Crispi-Cladera, 2012; Goel et al., 2012), generational aspects (Gersick et al., 1997), the simultaneous existence of both family and individual goals (Rautianen et al.,

2010) and the duality of the economic and non-economic goals that the family business pursues (Mustakallio et al., 2002) are typical family business characteristics. These characteristics also distinguish and differentiate family business governance from the governance of other type of companies.

It is typical that family firms have a high level of ownership concentration (Aguilera and Crespi-Cladera, 2012). The consequences of a concentrated ownership structure are twofold: holding a large amount of the voting power gives rise to resource deployment and capability development, but may also lead to the adaptation of damaging behaviour and the harmful use of power (Daspit et al., 2018). When the business grows and survives multiple generations of family owners, more owners tend to join to the business because of family ownership development (Gersick et al., 1997) and/or when outside investors participate in the business (Sacristán-Navarro and Gómez-Ansón, 2009).

Family businesses are a heterogeneous group of companies, for example, in terms of the owners (who own the businesses), the business (business maturity, the business field) or the composition of the family. Part of the complexity of family businesses arises from the existence of different shareholders or shareholder groups and their intentions for the business. The existence of different shareholder groups may cause agency problems between them, especially if there are differences in shareholders' ownership (Sacristán-Navarro et al., 2011). The governance of the family business has to adapt to the varying governance needs due to the development of the business, ownership and the family over time (Gersick et al., 1997; Goel et al., 2014; Nordqvist et al., 2014). In addition, the varying combinations of ownership-related dimensions bring unique elements to family business governance. For example, the number of owners and owning families, the type of owners, the dispersion of ownership among families or family members and the relationships between the owners all have an influence on the needed governance structure (Daspit et al., 2018). Owning families may also exercise control over the business by being actively involved in management or on the board (Sacristán-Navarro et al., 2011). These combinations, their influence and interaction, are dynamic and change along with the business, ownership and family development (Gersick et al., 1997).

FBGs emerge for a variety of reasons

FBGs pose some very interesting and unique governance issues. Ownership, management and family composition form a complexity that greatly affects FBG governance. FBG's social structure is both that of a family business and a business group (Chung, 2014) and the importance of family goals and the accumulation of family wealth affect their strategic decisions (Almeida and Wolfenzon, 2006). Governance in business groups differs from the governance of a single company because of the complex ties among entities in the group (Yiu et al., 2013; Manikandan and Ramachandran, 2015). Ownership arrangements between different companies and owners may seem to pose unique governance challenges for business groups. Some aspects of observed governance may appear dysfunctional when viewed with the objective of enshrining board independence. For example, concentrated ownership may jeopardize the boards' independent decision-making in different companies (Gaur and Kumar, 2009; Singh and Gaur, 2009), but it may be optimal from an FBG's perspective, where the owning family may value board's resource provision role more than the independent monitoring role.

When we consider the variety of ways in which family businesses develop their business group, the study of governance may become even more complex. The evolution of an FBG from a single-business family-owned firm is rather idiosyncratic, without following a clear pattern or timeline and with a large degree of randomness in the changes to the FBG portfolio. Some FBGs become very large and diversified with multiple businesses within the first two or three generations, and some may grow more slowly over many more generations. Some remain concentrated on relatively few sectors, but diversify within those sectors and develop an intricate web of core companies in a supply chain relationship with other businesses of the FBG. An FBG typically consists of separate *legal* companies for various reasons, for example, in order to minimize taxes or containing their risk, and sharing their risk with other owners. These companies can include totally and partially owned companies, joint ventures, associated companies, trusts and other types of company. An FBG may not develop as a traditional corporation since companies may have been incorporated based on a family's non-economic reasons. The complex group structure creates governance problems for the group management within these companies, as separate companies in the group may not be under the direct oversight of the management. There can be companies with multiple subsidiaries, where an external CEO manages all of the subsidiaries and companies which are under family control. Some of the businesses are more autonomous, and some of them are more integrated.

Based on the wide variety of FBGs that are observed, one can safely generalize that FBGs emerge for a variety of institutional reasons and families' idiosyncratic reasons. In terms of institutional reasons, a lack of an efficient and well-functioning capital market, and other institutional voids of various kinds (for example, inefficient, ineffective, corrosive or non-existent legal, economic and/or political institutions) may lead the family to create FBGs as more efficient, internally managed and regulated ways to raise and allocate capital and partition the risk in various business opportunities, as well as leverage the group's generic capabilities to support individual businesses (see, for example, Masulis et al., 2011; Khanna and Palepu, 2000a, 2000b; Khanna and Rivkin, 2001). In some cases, FBG structures have been used to maintain control over multiple businesses more efficiently via cross-holdings, and there is also some evidence that some FBGs use the group structure to expropriate capital from non-family minority investors (Masulis et al., 2011; Colli and Colpan, 2016).

Internal family reasons could be the desire to control and contain the risk of different businesses and support the family members with different entrepreneurial and managerial ambitions in order to avoid the risk of contagion to other parts of the business group. Thus, FBGs can also emerge because of portfolio entrepreneurship. As Granovetter (2005: p. 432) so eloquently argues as a counterpoint to the market failure and institutional void argument for the existence of business groups, 'it could be that groups do not emerge to solve problems [such as market failure], but rather because of special skills and abilities of entrepreneurs, families, and alliances to mobilize resources'.

The lack of cohesion in owners' goals or the disagreements regarding the strategic direction of the company may also lead the family business towards a group structure. If there are competing or otherwise varying purposes behind different businesses, the owners may shield one company from taking the risk of covering the liabilities of other businesses. The family may also decide to develop via an FBG structure to keep the family members and potential successors interested in the family business. This allows family members to learn and apply business skills via pursuing their own ambitions and to infuse an innovation dynamic/discipline in the portfolio (allowing the business portfolio to change dynamically in a modular fashion), and allows the family to leverage and contemporize the 'family magic' across the leadership of different generations. The family may allow family members to create separate businesses if the goals of these family members are different from the goals of the FBG. Keeping these businesses connected to the overall FBG via governance allows the FBG to manage the goal incongruence in a positive way – governance creates an opportunity for FBG leadership to educate and be educated by the owners and leaders of the different businesses in the FBG portfolio. This also allows the family to run a portfolio of businesses without encumbering it with excessive layers of hierarchy and avoids saddling the group with unproductive bureaucratic costs. Finally, a group structure also may allow the family to use the family's personnel resources more efficiently – in contexts where the family needs to be represented by someone they trust and using family principals to quickly negotiate deals, for instance – and allow the family owners to bring in professional business managers in a controlled way. As the family learn about the latter's potential over time, they can be placed more suitably in other businesses.

In contrast to FBGs, widely held non-family businesses sometimes suffer from a conglomerate discount because there may not be a long-term owner to provide a coherent vision and direction. In addition, a large number of diverse owners means that the only goals that they may agree on are financial goals. The professional managers of these organizations would typically be appraised on meeting financial goals, and there would be a tendency to replace managers if they cannot meet these goals. This may lead to short-term decision-making by managers worried about their tenure, as well as by managers worried about their reputation in the market for managerial talent. These conditions in turn lead to significant agency and bureaucratic costs in order to control wayward managerial behaviour. An FBG may avoid some of these costs via having trusted family or loyal non-family managers who serve the family business for the long run, leading to a conglomerate premium, rather than a conglomerate discount.

When the number of companies and family members in the group grows, it becomes more difficult to maintain goal congruency among all family members over the years, even as the imperative to grow the business in order to create wealth for an expanding family grows. In this context, the competition for resources and power within the family may intensify, and divergent views about the ownership and its value and rights may arise. This may cause conflicts between different family branches that may spill over to the group and create problems for other shareholders.

Family business success is based on continued entrepreneurship and professional management. When an FBG includes companies in different industries, the governance needs to develop the requisite expertise (for example, knowledge overlap, experience, an entrepreneurial perspective) to guide the companies' operating managers in order to achieve both each business' and FBG's overall goals. This leads to a new type of systems thinking in family business research as the resources specific to family businesses not only stem from a specific family business but also stem from outside that business – and the family owners have the opportunity to create the right amalgam of these different resources using their foresight, entrepreneurial skill and leadership competence. FBGs can therefore evolve dynamically without destroying the entire structure – on the one hand, the family running the business system changes over time, and on the other hand, family members as entrepreneurs make individual decisions about the allocation of their entrepreneurial spirit and ownership, and connect it to the FBG.

A family system contains both systemic cohesion and entropy (Rautiainen et al., 2010). On the one hand, there are social norms and a moral imperative to support the family and to celebrate the family as a collective while running the business and ensuring continuity over generations. On the other hand, the family members' individual business initiatives that are owned by the family and/or non-family members lead to diversification and promote independent venturing. These forces need to be in balance – cohesive forces promote continuity and leveraging the family's legacy resources in the future, and entropic forces promote entrepreneurship, which aids in contemporizing the FBG by having businesses that fit the times. Through this dynamic, the family business may grow both in overall size and in complexity (for example, in terms of the number of businesses, their place in the business cycle and their diversity relative to each other).

The governance debate has been largely shaped by the agency problems arising within individual corporate entities and between different stakeholders. The assumption in this case is that there is a single 'clearing house' where governance is needed to manage goal congruence among multiple owners and their accomplishment. However, general principles that address the problems arising at this corporate level cannot be applied to business groups which consist of multiple businesses that are idiosyncratically connected to the business group. The absence of good corporate governance in these structures could raise complex issues. For example, if we consider board members, their traditional and legal duties to the entity they serve are relatively clear. However, in a business group, these duties may become blurred, especially if they are on the board of multiple businesses in the same group or on the boards of some businesses of the group, as well as being on the overall board of the group. Decisions that are optimal at the business level for the stakeholders of that business may conflict with the goals of other businesses or the goals for the overall group.

Goals create the basis for governance

Fundamentally, governance issues arise out of the need to minimize the incongruity of goals among different stakeholders in a firm. Classically, the goal of companies has been and is to maximize profit (Kotlar et al., 2018). The goal of profit maximization arises from the assumption that a firm's owners want to maximize their returns from their investment in the firm, and the goals of other stakeholders are subservient to the owners' goals. However, family firms' peculiarity is that they are also associated with non-financial objectives (Daspit et al., 2018). For example, non-economic goals may aim to ensure the longevity of the company, family cohesiveness, harmony and status in the community and the ability to exercise family authority, act altruistically toward family members and ensure the perpetuation of the family values and dynasty (Zellweger et al., 2013; Kotlar et al., 2018). At the family level, the goal can also be to enhance family reputation and sustain an entrepreneurial tradition – for example, the goal can be to respond to the increased relevance of environment-friendly actions and corporate social responsibility (Zellweger et al., 2013). The family may also aim to use the family business as a backdrop to raising children with values of personal responsibility, discipline, self-reliance and having a duty to serve broader society. This duality of goals, together with the complexity of ownership structure, influences the governance needs of family businesses (Mustakallio et al., 2002).

The founder has a key role in the creation of family business goals in the initial years of the business, as organizational goals reflect the values and commitments of the founders (Kotlar et al., 2018). At this stage, the goals are often implicit by nature – the organization pursues its goals under the founders' direct management and leadership, and formal, explicit goals are not necessarily needed. As the family business grows, more family owners arise via inheritance of the shares in the family business. Ownership development across generations, and multiple generations of owners in the family business, yields a family business that may have owners whose goals differ from each other. These goal differences may arise for various reasons, inter alia, due to the owners' different visions of the future, different time horizons that are relevant to them and differences in their experiences, education and personalities. These differences create an imperative for all the owners to articulate more explicit goals, which may reflect the working consensus of goals, or the goals of a dominant coalition among the family owners. When the goals of different owners diverge too much, the governance mechanisms may be inadequate to bridge these differences, and the managers may have poor guidance and monitoring from the owners. In this context, managers will either be paralyzed, taking actions without any confidence, pursue their own interests or they may play some owners against the others by favouring the goals of some owners at the expense of others. Well-run family businesses may try to minimize the conflict created by highly divergent goals by pruning the number of owners and/or active and dynamic mechanisms of socialization and education about the common values and vision for the family business. Active construction of narrative, the management of symbols and artifacts, and identifying enduring aspects of the family's legacy (derived from the founders' values) may be other ways to develop a larger consensus on goals and to simplify the governance issues arising from significant goal divergence.

Adding non-family owners to some part of the business forces the family to create goals that make the family business an attractive target for non-family investors. For example, the parental goals of protecting and educating later generations may not entice outside investors who are searching for fast growth and financial return on their investments, and the failure to resolve the conflicting goals, both in terms of targets and the time over which they need to be achieved, may lead to mismatched expectations and conflicts among owners, complicating governance. At this stage, the need for governance – which would involve developing a reasonable consensus on the goals, communicating the goals in meaningful terms and evaluating the performance on various goals – is evident. Goal congruence would be a way to reconcile the objectives of different owners and owner groups.

A large part of the complexity of family businesses arises from the complexity of the goals and from the diversity of the involved parties. A well-functioning governance system can help in managing this complexity and pursuing the goals, and avoid a paralyzing conflict among the owners and paralysis in action. The essential role of governance is to facilitate the clarification of the goals in the presence of multiple owners and ensure that there is a reasonable consensus about the goals that can be pursued at any point in time, even when this consensus evolves in a dynamic fashion. The second major function of the governance system is to communicate the goals to operating managers and monitor the attainment of these goals in which the classic agency circumstances occur, namely, the goals of managers and owners that cannot be assumed to be aligned. The final task of governance is to ensure that the managers have enough resources to achieve the goals. These resources could be in the form of material resources, but are also non-material resources, such as resources providing access to social networks, legitimizing managerial decisions and actions, and freeing up constraints on managerial discretion.

A governance system consists of structures, mechanisms and processes

A governance system consists of governance structures, mechanisms and processes. Governance mechanisms consist of the rules, practices and processes that direct and control firm behaviour in a manner that balances and aligns the interests of its stakeholders (Walsh and Seward, 1990). Governance structures can roughly be divided into formal, regulation-based structures and informal structures based more on relationships, such as trust and idiosyncrasies of the family business. Social control based on the idiosyncrasies of family business can consist of, for example, family rules, family-specific cultural aspects, different symbolic acts (aspects) or guiding behaviour. Structures based on formal control, and drawing on agency theory, lay a foundation for contractual mechanisms, control and the use of incentives in achieving the goals. While formal control is needed to minimize the managerial or owners' opportunism, social or relational control is important for promoting social interaction and the formation of a shared vision. For example, for family firms trust often represents , a basis for cooperation and may provide a source of competitive advantage. In addition, goal alignment as a social control mechanism of governance can be a substitute for formal control structures and mechanisms, such as a board of directors (Pieper et al., 2008). This softer side of governance is relevant to family firms, considering the social capital embedded in the relationships that exist among family members and management (Mustakallio et al., 2002).

Table 10.1 Governance system consists of structures, mechanisms and processes

<Table 10.1 about here>

The board typically represents owners and trusted advisors in family business governance, legitimizes decisions made by operating managers and assists the management in leading the company effectively and in accordance with the overreaching goals of the owners (Gersick et al., 1997; Schultze et al., 2001). In addition to the board, there is a large number of possible mechanisms and structures for the governance that vary in their formality and institutional legitimacy and gravitas that FBGs can use in different parts of the group. The governance system, consisting of structures, mechanisms and processes, should be built to fit to the goal structure of the owners. (See Gersick and Feliu [2014] for an overview of typical formal governance structures used in family businesses.)

FBG governance

FBG governance is based on managing goal incongruence among the owners. Governance can be used to allow goal differences among family members and other stakeholders to be contained and managed within specific businesses so that they do not overwhelm the decision-making at the top. This allows governance for each business to be differentiated from each other and from FBG's overall group governance at the centre. By providing the possibility of relatively independent governance structures and processes for each business, under the oversight of the FBG governance, the business group structure allows for different goals to be pursued by the leader of each business. It allows the potential for the governance to be tailored to each business group – including its risk profile and its leadership (for example, family or non-family leadership, risk-seeking or risk-neutral leadership, its communication style and its personality) – thereby lowering the overall governance costs and increasing the overall governance effectiveness. Differences in governance structures and processes could relate to the number and composition of the board of directors, the frequency of meetings, the degree of and relative emphasis on monitoring and mentoring, the formality of meetings and other interactions, and the frequency, as well as overall direction, of communication vis-à-vis the business group governance.

We can view FBG governance system on two axes. One dimension ranges from an informal to a formal governance system (structure, mechanisms, processes). The other dimension ranges from isomorphic to idiosyncratic governance systems. An isomorphic system refers to an FBG governance system that is similar to that used by other businesses, without much adaptation to the specific context of each FBG. An idiosyncratic system refers to the extensive adaptation and contextualization of an FBG system in order to suit a specific business in a specific FBG. As shown in Figure 10.1, this provides four possible configurations of FBG governance that can be applied to FBGs. These configurations are applied at the level of each business. So, for example, in one of the businesses in the portfolio, the governance system could use formal structures and may be isomorphic when compared to that used by other businesses and by other owners (for example, those owned by corporations, or other FBGs). And in yet another business, the governance system used may be quite informal, with many idiosyncratic elements provided by the specific family owners.

< Figure 10.1 about here >

Figure 10.1 Dimensions of family business group governance

One would expect well-governed FBGs to make choices of governance for each business and let these choices evolve as the business evolves – which would lead to the FBG having a varied configuration of governance systems within its portfolio. On the other hand FBGs who use a standardized approach for each of their business units may find that some businesses are overgoverned, which may blunt the entrepreneurial spirit and growth in that business.

Our above exposition on FBG governance suggests that decisions about issues – such as whether businesses should be run by a family member or whether ownership should be shared with a non-family CEO – need to be made based on a deep understanding of the context. If the family leader is a portfolio entrepreneur, the number of businesses could exceed the number of qualified family members. In this context, external CEOs may be appointed to run and scale up the businesses. Whether they are given ownership depends on their own ambition, ability, efforts aimed towards upward influence, the view of the family's controlling shareholders about sharing ownership (including their perception of risk and risk management), whether the business is considered central or peripheral to the family business portfolio et cetera. Further, how the family business leader sees the future unfolding is important – if he or she visualizes/anoints successors, that affects the choice of external CEOs.

An optimal FBG governance system thus involves a dynamically contingent system based on managing complexity, choosing a mix of formal structures, mechanisms and processes at a macro level. At the micro level, conflict resolution systems (for example, setting up formal systems for ensuring procedural justice for the owners) and preserving the idiosyncrasies of the family by controlling the narrative via symbolic management could complement the macro level governance system.

By viewing FBG governance as managing a dynamically contingent system can lead to more definitive answers to questions such as these:

1. FBG boards may have outsiders on them – why? What do they do?
2. Ownership is differentiated – not everyone owns equal shares. How is it managed and how does it evolve?
3. The family may also own companies in the group that are non-productive – why? How are they managed?
4. Not all family members participate on the boards – do they circulate? Do they interact?

Our interacting system perspective addresses some of these issues. Each business has a governance system that needs to fit the ownership context, the leadership of that business unit, the business-specific context and the institutional context relevant for that business unit. Thus, governance for each business node can be tailored by taking into account the following considerations:

1. The ownership of that business unit, whether the family has complete ownership, or partial ownership – if partial ownership, the identity and/or characteristics of other owners
2. The leadership characteristics of that business unit – whether it is led by a family member or an external hire

3. The demands of the particular business unit relative to competencies available in the FBG that may determine, for example, what kind of board members may be needed to help open doors and provide the key resources needed to grow the business
4. The family's key idiosyncratic recipe that they believe is their key competitive advantage – that is, the constructed 'family magic'
5. The institutional demands of governance of that business (for example, regulatory demands, isomorphic imperatives)

These considerations tailor the governance of each business to its needs, as well as ensuring that it benefits from the resources and oversight of the FBG.

< Figure 10.2 about here, on its own page, landscape orientation>

Figure 10.2 the Evolution of an Family Business Group

Figure 10.2 describes the evolution of an FBG via two different routes, as well as the different generic choices of governance that the FBG faces on two dimensions. First, an FBG can develop either via portfolio entrepreneurship or via corporate strategy. When it develops via portfolio entrepreneurship, different businesses are added to the portfolio to accommodate the interests and entrepreneurial ambition of different family members. This can be the case in succession, for example, when the number of owners increases and the goal diversity among owners rises. These businesses are loosely tied to each other, and the decision to go into each business is related to entrepreneurial opportunities constructed by different family members. The connections between each business and other businesses, as well as the group centre, are not fully planned at the outset and emerge organically – hence they may become idiosyncratic, with each business having its own peculiar connection to other nodes as well as to the centre, resulting in a need for idiosyncratic governance solutions. This structure is more typical in multi-generation families that show a knack for nurturing entrepreneurs.

The other trajectory that leads to the formation of FBGs is via more deliberate adoption of corporate strategy by a dominant family business leader. In this evolutionary trajectory, businesses are added more deliberately, with a nod to their synergy with existing businesses, and with their links to the centre well planned. This structure could develop, for example, via targeted acquisitions that are then converted into separate business divisions or merged with existing SBUs. The FBG leader could make these decisions with an eye on qualified family leaders who could be put in charge of these divisions. Thus, in this trajectory, family members are more likely to emerge as managers and leaders of businesses that are already in operation and that are deliberately added to the group portfolio based on the vision of the FBG leader. This is more of a planned, top-down approach. In this group, the governance issues of different businesses are more likely to be standardized, with each business having a similar governance system and reporting relationship with the centre. This structure is more typical in multi-generational families that are run by a strong visionary at the top who develops the group portfolio and nurtures and assigns family managers to run each business.

With different family leaders at the helm of the group over generations, it is likely that FBGs evolve via following both trajectories. The middle part of the figure 10.2 shows that regardless of the trajectory followed to arrive at the group structure, there is a potential for the FBG to develop an optimal and idiosyncratic governance that would be optimal for that family and preserve the family's unique 'magic' and recipe that it brings to running the business group.

At the FBG level, the oversight of all the portfolio companies would take into account the following considerations:

1. The importance of the business unit in their current portfolio ('importance' could be assessed by multiple indicators from the business' and family's perspectives) including size of the business, net cash inflows, sentimental/legacy value, symbolic value (for example, a business unit that serves critical national interests that help unlock legitimacy and other resources from the national leadership for the entire group) et cetera
2. The future potential of the business unit to improve overall portfolio performance
3. Whether or not the business unit is led or championed by influential family members/owners – if latter, the FBG may keep it in the portfolio to avoid the cost of damaging conflicts

4. The FBG’s assessment of the business unit’s governance needs – for example, whether or not the business unit has external managers and/or non-family shareholders or whether or not it is operating in particular institutional environment (for example, an environment characterized by institutional voids due to the novelty of the business [for example, ride sharing] or due to the sensitive nature of the business [for example, health care])
5. Whether or not the business can benefit from exploring synergies via sharing governance personnel and processes

The FBG can allocate its governance attention to each of the business units based on the considerations listed above. In addition, it can synergize by grouping together business units with similar governance characteristics for governance decisions, balancing the cost of tailoring the governance to each business with the efficiency of adopting similar systems for businesses whose needs are quite similar to each other. This grouping would then determine the division of attention of the FBG to each business, as well as the degree of vertical governance interactions that occur between the business unit and the broader FBG.

We have argued earlier in this chapter that the development of the group structure may be the result of the need to manage and enlarge the congruence between the different goals of individual owners, the family, and/ or a group of owners. Optimal governance (that is, the fit of the contingencies outlined above) protects and enhances the capability of the owners to be entrepreneurial and construct opportunities from its environment. If the governance is not optimal, the FBG may become blind to such opportunities by becoming internally focused on resolving excessive conflicts due to significant goal incongruence among diverse stakeholders (the undergoverned case) or it may become too bureaucratic and lethargic (the overgoverned case). Bertrand et al. (2008) provide evidence about the consequences of undergoverned Thai FBGs. They found that after the death of the founder, the family-run groups tended to decay as the ownership became fragmented among equally powerful descendants. The decay suggests a shrinking consensus on common goals and a lack of appreciation about the value of group ownership and family control. A functioning governance system, initiated from the founder generation, could have preserved the entrepreneurial capability of the descendants, while also providing them with an appreciation of the synergies that the group provides, and it could have institutionalized the maintenance of any ‘family magic’ that the founder generation may have created. Entrepreneurial capability in the FBG ensures that FBG can dynamically create opportunities by interacting with its context, ensuring its survival and sustainability for successive generations.

Discussion and Future Research

In this chapter, we have provided an overview of the key issues in FBG governance. We first traced the development of an FBG from the founder to subsequent generations, taking into account the economic and non-economic objectives of family businesses. We then explained the governance issues arising from goal incongruence, explained how and why the goals among different owners may differ and explained how a governance system is used (in terms of structures, mechanisms and processes) to resolve these goal incongruences. We laid out two broad trajectories of FBG development: entrepreneurial and strategic trajectories. Understanding the specific trajectory that an FBG has followed helps in making optimal choices about FBG governance. We laid out the different contingencies that affect decisions about FBG governance and discussed the implications of optimal FBGs versus under- or overgoverned FBGs. Our perspective is influenced by our normative prescription that the goal of FBG governance should be to enhance the entrepreneurial capability of the FBG.

Our eclectic exposition on governance in FBGs suggests several interesting research directions. If one wishes to take a broad cut, future research should investigate the interactive effects of the family, the ownership and the institutional context in a holistic manner in order to trace the evolution of governance in the FBG. At the business level, in addition to these influences, one may also expect to see the influence of the business context as well. It is likely that deep case studies that retrospectively trace the evolution of governance over a number of years may be fruitful at this stage (see, for example, Rautianen and Goel’s [2018] study on the Nurminen family in the Finnish institutional context). Specific research questions could explore the conditions under which the influence of one influence (for example, ownership) is dominant over other influences.

In particular, we believe that the evolution of FBGs reflects many of the idiosyncratic features of the owning family. The businesses that the FBG adds, the degree of ownership they keep in each of them, the geographic dispersion of their businesses and the choice of leaders for each business are intricately tied to the family's founder and founding values, the family's legacy and the way the subsequent generations of the family are raised. The founding values and the founding conditions of the business are the key to understanding how governance evolves in an FBG. The founders of the family business are typically in charge for three to four decades and they have a material influence on the kind of goals that the FBG pursues, as well as upon the supporting structures that are put in place to pursue these goals. FBGs may also reflect the unexpected, specific crises and positive events in the family's history – for example, unexpected deaths, divorces and marriages, as well as favours, obligations, informal agreements, emotional hurts or slights – all of which may subtly change the evolution and structure of FBGs and both raise specific governance challenges in terms of goal incongruence among owners and require specific governance processes in response to them, contextualized within the adoption of generic governance structures (for example, the board of directors) and mechanisms (for example, board meetings).

Future research could start by providing a deep understanding of the founding family's history and linking specific historical events in the family to the evolution of the FBG via deliberate or emergent strategy. In the process, one can investigate whether the FBG made appropriate decisions in governance or whether it became over- or undergoverned, with the specific consequences of increased conflict among stakeholders and the passing up of entrepreneurial opportunities. Studies of this nature may require piercing the 'family veil' and going beyond the dominant or prevailing narratives about the family in order to understand the evolution of governance and specific governance failures and successes in the FBG.

Fine-grained studies of governance structures in FBG would be able to pick up some idiosyncratic vestiges of the material many generations after the 'Big Bang'. These idiosyncratic vestiges could be symbolic or substantive or may have evolved from one to the other, but these could be the repositories of the 'family magic' in an FBG.

Our paper also provides a new setting for goal congruence research. The research of goal congruence has explored behaviour in organizational settings and the person–organization fit (Colbert et al., 2008). Goal congruence opens interesting avenues for the future studies of FBG governance by specifically modelling the congruence and incongruence of goals among different owners and other stakeholders in an FBG. In an FBG context, the approach aims at analyzing the ownership structure at each level in order to identify the goals of each owner or group of owners. This would lead to looking beyond the broader goals (for example, profitability) to the intermediate goals (for example, the means of achieving the broader goals, the personnel responsible for achieving the goal et cetera). As such, it extends to cover all the involved actors (owners, the board of directors and top managers). The simultaneous existence of varying owners (individual family members, the family as a collective and non-family owners) and involved actors (board members and managers), together with varying and multiple goals (financial and non-financial goals, family goals), creates highly interesting research settings and governance questions from the goal congruence perspective.

To begin with, goal congruence needs further examination from at least three perspectives: that of the family members, that of all owners and owner groups, and that of the owners and managers (that is, the perspective of the principal-agent setting) (see Bouillon et al., 2006). If one controls for the reasons arising from institutional voids, one could study FBG history directly in order to see if the FBG structure was one possible way to manage incongruence between the goals of individual owners, owner groups and business(es) (by combining the lower-level incongruent goals with coherent goals at the group level). What kind of governance system is needed to promote goal congruency in an FBG?
Another issue related to goal congruence is how, and how often, the goals change or evolve, and whether or not FBGs adjust their governance to such changes in either reactive way or a deliberate way. One aspect of goals, for instance, is formed of the values that the family wishes to abide by and the values it wishes to incorporate across all their businesses in their modus operandi. If the subsequent generations of family owners are not adequately socialized in these values, different owners may begin to instil their own values in the businesses, resulting in the incongruence of values (see, for example, Bertrand et al., 2008).

In future studies of FBG governance, researchers must show a high degree of sensitivity to the idiosyncratic nature of the founding conditions and the evolution of the family business. In certain institutional contexts, the family context may matter much more in explaining FBG governance. And depending on the family characteristics, there may be a mix of agency and stewardship behaviours in different parts of the FBG portfolio. For example, such differences could correspond to the evolution of different branches of the family tree. It is common among FBGs to have different branches of the family leading different parts of the FBG portfolio. When FBGs are not led and governed by a strong centre, different branches may substitute FBG's goals with their own goals and may reflect varying degrees of agency and stewardship behaviours in the parts of the FBG portfolio that they control. We believe that more studies tracing the evolution of FBGs would highlight the role of governance in explaining the trajectory of the evolution on a variety of dimensions.

More generally, studies could add more context to studies of governance in FBGs. How do formal governance structures in different parts of the FBG interact with each other and influence each other – are they isomorphic, or are they contextualized, etc.? The benefit of the structures being isomorphic is simplicity at the group level, but the downside is that they may not be a perfect fit in terms of formality and systems with the business unit. The benefit of contextualization is a better fit with business and management contingencies, but at the expense of added complexity at the group level. The most functional system would appear to be a tiered system with businesses grouped together at different levels of complexity, sharing similar governance structures within the group. This balances the need for the business to fit with keeping complexity at a manageable level at the group level.

In a prescriptive vein, it seems insightful that FBG governance *should* aim to lock in the idiosyncratic advantage of the family via the choice of having a governance system for each business, as well as via the linkage of governance at the business level to FBG governance. This suggests that the family inserts its influence in a creative way, even in the face of other isomorphic influences. In addition, the ownership of business nodes is important – if these nodes are extensions of the family's entrepreneurial ideas, the system cannot be exclusively top down (driven by the FBG at the centre), nor it can be exclusively bottom up; rather, it needs to have reciprocal influences. Across an FBG, we should find a lot of idiosyncratic elements. These do not suggest dysfunction; rather, these elements may indicate the family's attempt to formalize and institutionalize their 'family magic'. By studying the performance effects (on a variety of goals) of different governance systems, these prescriptive elements can be rigorously tested.

Future research can also explore the reverse effect of FBGs on the governance imperatives that emanate from the institutional context. These institutional imperatives could include, for example, mechanisms to protect minority family and non-family shareholders, requirements for the board of directors (including its composition) et cetera. In some countries, large FBGs could influence the political and legislative process in order to yield governance mandates that favour the interests of such FBGs. FBGs aligned along the national interests, or wrapped in national identity, may benefit from special exemptions from governance mandates and earn more freedom in their actions.

Conclusion

Our chapter makes several key contributions to the study and understanding of FBG governance. First, we offered an eclectic and holistic view of governance in FBGs, incorporating the complexity of FBGs. Our approach is to match the complexity of FBGs with the requisite complexity of governance system needed for FBG sustainability and growth. Second, we focus on dynamic goal congruency as the central aspect of governance at all levels in the FBG. This incorporates the variety of economic and non-economic goals of a variety of family and non-family owners at multiple levels in an FBG. Our approach to goals is value neutral, but focused on keeping the owning family in the centre as the fount of FBG sustainability and growth. Third, we develop the exposition of FBG governance as a dynamic optimality of a variety of contingencies, rather than using a standardized, cookie-cutter approach that may be based on isomorphic institutionalism. Our framework also offers the flexibility to understand and recommend a governance system in a variety of FBGs in any institutional context. Fourth, using our framework, we distil general prescriptions that preserve, and indeed enhance, the idiosyncrasies of the owning family and we try to incorporate the family's competitive advantage via governance. The aim is to nurture entrepreneurial capability in the FBG rather than sanitize the FBG from the family's unique recipe and enduring 'family magic'. Finally, we suggest several research directions from a variety of perspectives in order to spur on research on FBGs all over the world.

FBGs are an important part of the global business landscape. In most countries where they are found, they have survived many generations and outlived many other institutions and critical events – including world wars, the breakup or redrawing of national boundaries and changes in national governing systems. Over time, FBGs can become large and complex entities, varying in diversification among businesses and countries, different kinds of owners in different parts of the business and different employment relationships among the top managers of the businesses. In this chapter, we also visited governance issues in FBGs. Our exposition is quite general and we aimed for it to apply to a wide swath of FBGs. Throughout our discussion, we kept an eye on preserving the owning family's freedom, as well as entrepreneurial and leadership competency, while developing a framework of a highly contextualized governance system for a FBG. We hope that our framework leads to several interesting exploratory inductive and deductive studies that would further flesh out the terrain of governance in FBGs and add usable knowledge about the governance of a dominant business form in many parts of the world.

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Figure 10.1.

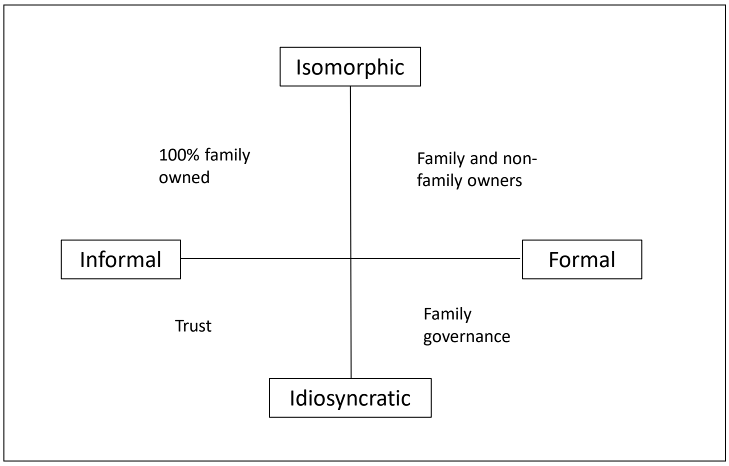

Figure 10.2

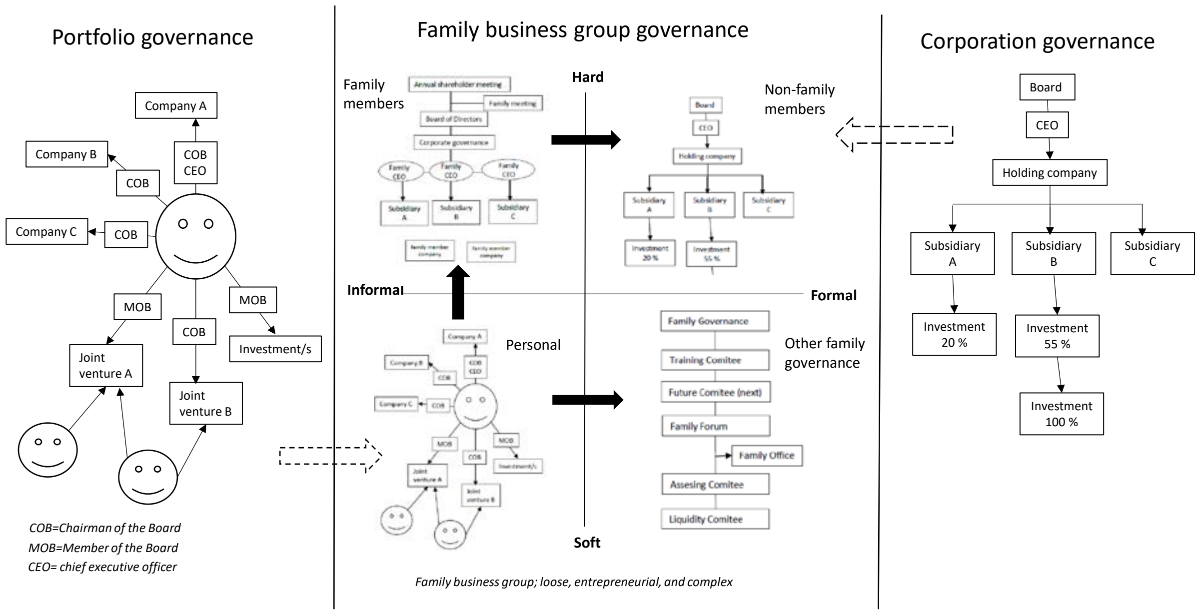

Table 10.1

Governance system			
Governance structures	**Shareholder groups** 100% family ownership, partial ownership, identity of the outside owners	**Board of directors** Composition; frequency of meetings; working processes	**CEO** Family CEO or non-family CEO
Governance mechanisms	Family or ownership meetings; general annual meeting; family councils; agreements between shareholders	Incentives; monitoring systems; agreements between the CEO and the board, Board meetings	Creating strategy based operational goals; providing resources to the operational level
Governance processes	Shared sense about goals; communicating goals out	Degree of monitoring and advising; providing networks and resources; interaction type: communication	Communicating goals to the operational level