

Codes of Governance for Family Businesses

Carole Howorth, Martin R. Kemp, Timothy J. Nichol

Abstract

In this chapter, we critically review national governance codes and guidance developed for family businesses. Governance codes tend to state that their aim is business improvement and focus on individual companies, with little recognition of the intertwining of businesses and shadow decision-making structures that can occur within business families. This is surprising considering that most guidance and codes were compiled by family business associations or networks. Governance codes for family businesses tend to provide recommendations and advice based on moral, quasi-legal or practical principles rather than evidence-based findings.

Introduction

Some countries have developed governance codes with the aim of ensuring responsible company management. However, governance codes and guidance developed for publicly-owned companies with dispersed shareholdings might not be applicable to more closely-held family businesses. Codes developed for private companies focus on corporate governance, particularly the board of directors, with little reference to the governance context for family businesses. A small number of countries have developed governance codes or practice guidance specifically for family-owned and family-run businesses, but mostly focused at individual company level with no consideration of the interconnectedness of business families.

Business families with sizable portfolios can have a powerful influence within their communities and on local or national politics (ten Kate, Kuepper and Piotrowski, 2021; Roscoe, Discua Cruz and Howorth, 2013), as well as within the realms of their businesses. Large private companies make significant contributions to the economy and wield power as major employers within their communities (Morck, 2005; Pindado and Requejo, 2015); the social and environmental impact of their business operations can be substantial and, on occasion, devastating (ten Kate, Kuepper and Piotrowski, 2021). Governance of the business interests of business families is therefore relevant not just to their immediate stakeholders but also for wider society.

Weak governance might lead to company scandals, malpractices and corporate failures, with knock-on effects for employees, supply chains, economies and society's trust in the business sector.

National governments tend to control business governance risks through legislation, for example specifying statutory reporting requirements and duties of directors. Governance codes provide recommendations of good practice alongside legislation, usually on the basis of 'comply or explain' which requires businesses to report on each element of a code, whether/how they have complied with it and if not, why not. There are over a hundred national codes of corporate governance, with some countries having separate codes for listed and private companies. Business families with international interests could therefore be subject to an array of governance codes, depending on the countries they operate in and whether they have private or listed companies.

Much business governance legislation and regulation focuses on the listed company sector but in recent years, there has been growing concern and increasing regulation around the governance of private companies. To our knowledge, there is no governance legislation aimed specifically at family-owned businesses or business-owning families. Governance presents additional challenges for family-owned businesses as they negotiate family relationships intertwined with business imperatives, therefore governance encompasses family governance as well as corporate governance. Family relationships can bring love, commitment and passion for the business, but can also drive nepotism, rivalries, conflict and power struggles (Tagiuri and Davis, 1996). With multiple generations, family relationships can become increasingly complex and more challenging to manage, particularly where there are competing objectives and varying levels of interest and involvement across different branches of a family. For business families with intertwined ownership structures across a portfolio of companies and assets, such complexity is multiplied. There is very little in law that recognises the intertwining of businesses that might exist in families, other than an obligation for directors to declare conflicts of interest. Family ownership aspects are more likely to be encapsulated within governance codes rather than legislation. From the early 21st Century, there has been an increase in countries developing governance codes specifically for family businesses.

In this chapter, we examine family business governance codes to understand their purported purpose and content. It is important to understand the purpose, design and content of governance codes before their effectiveness can be assessed, particularly as assessments of the effectiveness of governance codes have proved challenging (Chaher and Blume, 2016) due to variation among codes, and lack of consensus about what the dependent variable should be.

Our analysis identifies that most family business governance codes are focused on enhancing business performance, and protection of investors, with an emphasis on corporate governance guidelines, many of which are already enshrined in law or other corporate governance codes. The content across codes is very similar with little to indicate variations in cultural context. Family business governance codes pay little attention to responsibilities towards society or a broader group of stakeholders. Codes rarely considered the potential for stewardship, long-term perspectives, psychological ownership and altruism to influence governance approaches and requirements. In some business families, attitudes of trust, love and commitment may make positive and responsible business behaviours more likely and reduce the need for formal controls or regulation. In such circumstances, the application of strong controls might stimulate perceptions of not being trusted, leading to tensions, self-serving behaviours and a downward spiral of trust.

The reviewed governance codes failed to consider that business owning families may be complex, interwoven, social organisations. Governance codes did not recognise that family shareholders may use relational as well as contractual governance mechanisms to retain power and influence over corporate decision-making. Governance codes did not acknowledge the potential risks arising from the substantial influence that some dynastic business families may exert within interconnected businesses and wider society. The effectiveness of governance codes in relation to business families is undermined because they fail to recognise that the locus of decision making is likely to be at group level.

Definitions and Development of Governance Codes

It is interesting that the development of corporate governance codes, in the UK, can be traced back to a powerful business family, exemplifying the influence and impact that individual members of business owning families can have politically and in society. Sir Adrian Cadbury, former chairman (1965-1989) of Cadbury Ltd (which became Cadbury Schweppes), was a director of the Bank of England and IBM, and Chancellor of Aston University, when he chaired the Cadbury Committee (Cadbury 1992) tasked with reviewing financial reporting and accountability aspects of corporate governance, focusing on listed companies. The 'Cadbury Report' (1992) provided an important foundation for the development of corporate governance regulation. Cadbury stated the need for corporate governance thus:

The country's economy depends on the drive and efficiency of its companies. Thus the effectiveness with which their boards discharge their responsibilities determines Britain's competitive position. They must be free to drive their companies forward, but exercise that

freedom within a framework of effective accountability. This is the essence of any system of good corporate governance. (Cadbury, 1992: 10)

For Cadbury, governance was about the board of directors being efficient, effective and competitive, as well as responsible and accountable. Subsequent reports (Greenbury, 1995; Hampel, 1998; Turnbull, 1999) explored aspects of governance not initially covered by the Cadbury Committee, leading to the Combined Code: Principles of Good Governance and Code of Best Practice (FRC, 2000). Periodically revised, the current iteration is the 2018 UK Corporate Governance Code. Following Cadbury's 1992 report, legislation and codes around the world led to similar provisions in other jurisdictions. For example, in 1994, Canada released the Toronto Report on Corporate Governance and in the same year, the American Law Institute in the USA published their Principles of Corporate Governance. Brazil was one of the first emerging markets to issue a corporate governance code, in 1999 (Santos et al., 2020). The Organisation for Economic Cooperation and Development (OECD) Principles of Corporate Governance, first issued in 1999 and re-issued in 2004 and 2015, provides an international benchmark, summarising the need for good governance thus:

Good corporate governance is not an end in itself. It is a means to support economic efficiency, sustainable growth and financial stability. It facilitates companies' access to capital for long-term investment and helps ensure that shareholders and other stakeholders who contribute to the success of the corporation are treated fairly. (OECD, 2015)

In the USA, the Sarbanes-Oxley Act was introduced in 2002, its main purpose being protection of investors following high-profile corporate scandals including Enron and WorldCom. In 2006, the United Nations published their Guidance on Good Practices in Corporate Governance Disclosure (UNCTAD, 2006), providing a list of 52 items around financial transparency, corporate responsibility and compliance, audit, shareholding structure and control rights, and board management structures and processes. Following the financial crisis of 2008, there was an increase in countries adopting codes of corporate governance, still aimed mainly at publicly-listed companies. Variations in national codes arose because the institutional contexts varied and because countries differed in which groups or institutions developed the codes. For example, codes were driven by the financial sector in the UK, businesses in France and India, accountants in Hong Kong, the government in Spain, and investors in the Netherlands (Cadbury, 2000a; Cuomo et al., 2016). Cadbury suggests that countries need to learn from each other:

...there is no single right corporate governance model... the best approach is to start from whatever system is in place and to seek ways of improving it. In this search for

improvement, every country can learn from the experience of others. (Cadbury 2000a: 7)

The basic premise of governance is to provide oversight and ensure accountability. Definitions of governance often include how rules, norms and actions are regulated and people or organisations held accountable. There are various definitions but the OECD (2004) provides a broad, internationally adopted definition of corporate governance as:

Procedures and processes according to which an organisation is directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the organisation – such as the board, managers, shareholders and other stakeholders – and lays down the rules and procedures for decision-making. (OECD, 2004: Glossary)

The OECD definition emphasises rights and responsibilities of a range of stakeholders. The implementation of a governance structure requires power and authority to ensure it is effective. Corporate governance emphasises the directors' accountability to shareholders (Cadbury, 1992). There is often very little consideration of the accountability of shareholders, particularly major or dominant shareholders as might be found in business families. It is frequently assumed that power and authority lie with the board of directors but in business families particularly, relational governance mechanisms can provide individuals or groups of shareholders with significant power (Nichol, 2021).

Governance for Family Owned Businesses

Agency theory is dominant in corporate governance guidance based on an assumption of separate ownership and control. It is frequently assumed that for many business families, agency theory is silent because they do not have separation of ownership and control. However, business families may face agency issues if they have major and minor shareholders, dominant family executives, inactive or distant shareholders, or indeed any circumstance where one group of family members (agents) are acting on behalf of others (principals). There is little consideration however of family governance or the rights and responsibilities of business-owning families in early governance codes. Sir Adrian Cadbury followed the 1992 report with guidance specifically for family businesses (Cadbury, 2000b) but this was not taken up formally and the UK, like the majority of countries, does not currently have a code of governance specifically tailored to family businesses.

Codes of practice and corporate governance legislation aimed at publicly-listed companies (PLCs) are based on a market model that expects companies to have a widely dispersed shareholder base and a majority of independent non-executive board members. The typical family owned business has a concentrated group of shareholders from one or more business families and, frequently, family members are active in management and on the board (Westhead and Howorth, 2007). Many family owned businesses are privately owned and some avoid debt, so are not subject to the external governance that comes through financial markets (Tappeiner, Howorth et al., 2012; Shyu and Lee, 2009; Croci et al., 2011). The relevance of governance codes developed for PLCs may be questioned by business families. The UK's Institute of Directors note that:

[For privately-held companies] copying the widely-recognised principles of best practice for listed companies is... not a viable solution, as the corporate governance challenges of listed companies are distinct from those of unlisted companies (IoD, 2010: 9).

Some countries have developed codes of governance for privately owned businesses, for example, *Code Buysse II* in Belgium (Buysse, 2009). In 2010, the European Confederation of Directors' Associations (ecoDa) developed governance guidance for unlisted European firms (updated, 2021). In the UK, all companies over 2,000 employees or £2 million turnover have been required since 2019, to state which code of governance they adhere to and explain any deviations. Alongside this statutory requirement, government and business representatives developed the Wates Corporate Governance Principles for Large Private Companies (FRC, 2018). The six Wates Principles all relate to the role of the board of directors and state that they aim to provide a flexible approach to corporate governance for large private firms 'without being unduly prescriptive' (FRC, 2018: 5).

Most governance codes emphasise principles of: impartiality; transparency; trust; probity; fairness and equity; representation, and accountability. Codes aimed at private companies focus on corporate governance, and particularly the role of the board of directors. Guidance designed for unlisted or private firms rarely acknowledges or provides recommendations on the particular governance challenges faced by family firms; nor does it have much to say on the rights and responsibilities of owners. Some countries have developed voluntary codes and national level guidance specifically for family owned businesses, following concerns by commentators such as Lane et al. who argued that governance codes and guidance developed for publicly-owned companies could be 'detrimental' to family owned businesses and that:

...many of these recommendations may harm family unity or might be too complex for private firms, and many are applicable only to very large, public companies with dispersed

ownership. As a result of these differences, many... laws and recommendations may actually be harmful to family-owned businesses. (Lane et al, 2006: 147)

A family constitution (a.k.a charter, protocol) is one mechanism unique to family business governance. The implementation of a family constitution has been associated with improvements in financial returns, particularly for small family businesses facing increased complexity e.g. later generations, multiple owners and non-family CEOs (Arteaga and Menéndez-Requejo, 2017). Family constitutions tend to be premised on separating 'family issues' from business ones, managing family conflict and the notion of professionalization. A more nuanced approach would define the disposition of decision-making power in and around a family's businesses (Nichol, 2021).

To provide more insight into these issues, we analysed codes of governance developed specifically for family owned businesses, as explained in the following sections.

Code Selection and Analysis¹

Governance codes and guides developed specifically for family firms were identified for eleven countries. Of these, eight were available in English translation (Arab Gulf countries, Finland, Germany, Italy, Netherlands, Pakistan, Spain, Switzerland) and included in our analysis. Three countries' codes (Columbia, Morocco and Saudi Arabia) were excluded because they were not available in an English translation. Table 1 provides basic characteristics of the selected codes. All eight guides or codes were compiled between 2003 and 2017. Most were written by, or in collaboration with, national family business associations or networks, many of whom were member associations of the international Family Business Network (FBN). Legal and business experts from advisor institutions produced codes for Pakistan and Switzerland.

Table 1: Description of Codes

Country	Year	Title (Reference)	Contributors
Arab Gulf countries	2016	The GCC Governance Code: Governance Guidance for Family Businesses (FBCG, 2016)	The Family Business Council – Gulf (FBCG), representing family firms in Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Bahrain, and Oman
Finland	2009	Good Corporate Governance in	Finnish Family Firms Association (PL)

¹ An earlier version of this analysis was prepared for the Institute of Family Business Research Foundation and published in the report: Howorth, C. and Kemp, M. (2019) 'Governance in Family Business: Evidence and Implications' London: IFB Research Foundation.

		Family Business: Governance of Ownership, Business and Family (FFFA, 2009)	
Germany	2015	Good Governance in the Family Business: Guidelines for the responsible management of family businesses and business-owner families (May et al, 2015)	INTES (the Academy for Family Businesses), FBN, and Die Familienunternehmer (ASU)
Italy	2017	Principi per il Governo della Società Non Quotate a Controlla Familiare: Codice di Autodisciplin/Corporate Governance Principles for Unlisted Family-Controlled Companies: Code of Corporate Governance (AIDAF, 2017)	AIDAF (Italian Association of family firms) with Bocconi University
Netherlands	2003	The Family Business Governance Report: Practices and Recommendations (FBNed, 2003)	FBNed (The Dutch Association of Family Firms): The FBNed Committee for Good Governance in Family Businesses
Pakistan	2008	The Corporate Governance Guide: Family-Owned Companies (CIPE, 2008)	Pakistan Institute of Corporate Governance, The Institute of Chartered Accountants, and Centre for International Private Enterprise
Spain	2005	Good Governance in the Family Business/Buen Gobierno en la Empresa Familiar (Casado et al., 2005)	El Instituto de la Empresa Familiar (IEF)
Switzerland	2008	Code G Family: Business: Environment: Governance Guide for Families and their Businesses (Continuum and Prager Dreifuss, 2008)	Continuum AG and Prager Dreifuss (lawyers and advisers)

Analysis was qualitative and aimed to capture, compare and contrast the elements of each code within the context of how and why each code was developed. Matrices, notes and discussions between the researchers formed the main tools of our analysis.

Aim and Purpose of Codes

Four of the eight guidance documents called themselves ‘codes’, and four were presented as ‘guidance’ on good governance practices. They were all written for family-owned or controlled companies in their respective countries and covered family as well as corporate governance to varying degrees; their intended audience, stated purpose and specific scope varied.

The codes and guidance targeted either large and medium-sized family firms (Germany; Italy; Pakistan; Switzerland) or family firms of any size (Finland; Gulf countries; Netherlands; Spain). Most

of the codes were aimed at unlisted family firms. The Swiss code was directed towards all family firms irrespective of their legal form, and explicitly mentioned family members and business officers working in medium-sized and large firms. The codes developed in Germany and the Gulf countries were written for owners of family firms. The Finland guidance identified the different roles that family and non-family members might have in relation to governance of a family business e.g. active and non-active owners, active non-owning family members, and non-family members. Interestingly, the Finland guidance identified, in addition, that family members not active in the business (e.g. next generation, spouses) were relevant to the governance of their businesses. The Netherlands guidance helpfully indicated which stakeholders each recommendation applied to: senior or junior family members, executives, board members, or shareholders. This enabled different stakeholders to identify guidance specific to their position.

Most of the codes and guidance stated that their aim was business improvement. For example, the Finland guide stated aims around improving understanding and 'to help family firms develop their corporate governance practices and thereby improve their competitiveness' (FFFA, 2009: 6). The Netherlands guidance provided recommendations that sought to promote a 'healthy vital business'. Without presenting evidence, the codes and guidance suggested that improvements in corporate governance would improve the performance of businesses and employed this as part of the argument for adopting their guidance.

There was recognition that working through the guidance would enable family businesses to assess their current practices and structures. The Swiss Code was described as a 'regulatory framework for governance', intended to help 'determine the power, management and control structure for the family (family governance), the company (corporate governance), and their conduct towards external stakeholders (public governance)' (Continuum and Prager Dreifuss, 2008: 3). The German code sought to offer 'family-owned companies and their environment (stakeholders) a reliable framework for the assessment and optimisation of their individual governance structures' (May, Haub and Goebel, 2015: prelim). The code for the Gulf countries sought to codify best governance practice and provide 'a common compass to help family businesses navigate through their own process' (FBCG, 2016: 3). The Pakistan guidance stressed the need for good governance to reduce conflict, which was assumed to be higher in family owned businesses.

The ability to tailor recommendations to specific circumstances was recognised in most codes and guidance. The German code stated that guidance should be 'tailored to the situation specific to the business and the family involved' (May et al., 2015: 8). The Spanish guidance sought to offer

‘practical instruments to family businesses which help to answer a series of challenges which cannot be dealt with through laws or self-regulation,’ presented as ‘a set of principles and actions which [...] may contribute to improving the long-term feasibility of family businesses, independently of their size, sector or origin’ (Casado et al., 2005: 16). The Gulf code emphasised heterogeneity of family firms and gave them a series of questions to consider. The Netherlands guidance also acknowledged variation and provided advice around the governance challenges faced by different types of family business (owner-managed; family-managed; family-controlled). The Italian code set out principles and guidelines for family firms to examine and improve governance and then ‘to report the (even partial) adoption of the recommendations and behaviours set out in the Code in its Annual Report or in any other similar document’ (AIDAF, 2017: 6). The Pakistan guide stated the need for flexibility in adoption as follows:

The Guide includes different recommendations for various types of family-owned companies; given the wide variety of company attributes such as size, age of the company, the nature of business, the composition of shareholders, and family dynamics. Therefore, not all provisions of this Guide are applicable to all companies across the board, and the Guide may be adapted in accordance with the needs of individual businesses. (CIPE, 2008: 3)

Content of Guidance and Codes

Most of the guidance analysed included a conceptual element, albeit fairly descriptive, setting out general principles and definitions, followed by specific practical recommendations. The more sophisticated ones integrated general principles into their recommendations. The less sophisticated guides focused on practical recommendations with a bit of tailoring to family firms. All the reviewed codes and guidance provided recommendations for the board of directors and typically provided detailed guidance on family governance structures and mechanisms such as family councils, family charters, and the relationship between the family and the company. All texts covered family governance as well as corporate governance, but varied considerably in the extent to which they addressed governance issues relating to owners and shareholders, management, the external environment and societal responsibilities. Texts varied in accessibility, readability, and ease of navigation, with lengths between 19 and 40 pages.

The Swiss code was structured into separate recommendations for each of the family, ‘business players’, and external stakeholders. The German guidance started by discussing the role of family firm owners, their rights and obligations, and then defined the role of the [supervisory] board, followed by advice on management, ownership, and family governance. The German guidance

included a useful glossary with definitions of key terms and concepts.

The Italian code identified the behaviours or governance practices believed to characterise a well-functioning governance system, organised around 20 principles and 10 articles, with clear definitions of key concepts and scope. Each 'article' included principles with recommendations for how to apply them. Topics included the 'management of the ownership structure, succession plans, involvement of non-family managers, and balance between company and family interests' (AIDAF, 2017: 7).

The Netherlands guidance was schematic, structured around the familiar tripartite model (family, business, ownership), the 'three pillars' of a 'healthy vital business'. The Netherlands guidance provided a detailed analysis of what constitutes good governance in a family business context. This guidance was atypical in that it designated advice as recommended, advisable, or to be considered, and specified relevance for different types of family firms or stakeholder groups.

Similarly, the Finland guidance used Tagiuri and Davis (1996) 'three circles model' to structure their guide. The style was more discursive with explanations and reflections on why the included principles and practical recommendations were important. The content ranged from specific practical advice (e.g. tax deductibility of family governance expenses) to high level concepts (e.g. the power of majority owners).

The Spanish guidance adopted a theoretical approach, employing systems theory to consider the complexity of family firms in relation to governance guidance. The tripartite family-business-ownership system was also used here to organise recommendations but with emphasis on relationships within that system (e.g. between business and family, shareholders and board).

The Pakistan code started each section with a prescriptive statement (e.g. the board should...) and then provided very succinct descriptions of each constituent part. A series of 'Annexures' included a simplistic explanation of three stages in the lifecycle of family owned businesses, tips for independent directors and a glossary of terms.

The code developed for the Gulf countries was unusual among those reviewed in that corporate governance received less attention than family governance. 'Questions to consider' focused on ownership governance - legal structure, governing policies (such as shareholder agreements) and governing bodies (shareholder council, shareholder assembly), as well as wealth governance, public engagement and succession planning.

Some of the codes or guidance documents included recommendations on implementation. The

Swiss code included a separate section on how to implement the recommendations, with a comprehensive checklist. Similarly, the Gulf countries code included a useful checklist, with steps needed to achieve an effective governance system for family businesses.

Corporate Governance

Corporate governance recommendations in the codes and guidance included definitions of corporate governance and the rationale for it, plus advice about boards of directors including the purpose, structure and composition of boards, and the recruitment and remuneration of directors. Corporate governance in the guides and codes varied in the attention given to the relationship between corporate and family governance, and in addressing corporate governance beyond board structure and duties.

Corporate governance in the Swiss code centred on management, including recommendations and advice on: vision and strategic orientation; the structure of the business; the board of directors (board composition, chair, duties); shareholders (relationship with board, engagement); management (decision-making, duties, reporting, remuneration, compliance); corporate culture and motivation; and managing generational change and succession planning.

The German guidance discussed the role of the supervisory board, its purpose, and responsibilities. It also provided recommendations on reporting remuneration, composition of the supervisory board, and the selection of board members (including family membership).

The Finnish guidance also recognised the value of a supervisory board. This guidance explained the reasons and implications of a range of recommendations for boards of directors including rewarding and motivating directors, structure of boards, and committees. It included sections on communication and employing family members. The guidance recognised that requirements change with the size of company.

The Spanish guidance considered the role of the board in the context of the 'family business system of governance' and provided advice on board regulations; board structure and function; size and composition; directors' competences, duties, and remuneration.

The Gulf countries code stressed the importance of defining relationships between family and business. A definition of corporate governance was followed by scope and elements of good corporate governance including: vision; legal structures and governing bodies; the board of directors and their responsibilities; board composition, and committees. Advice included having 'well-

qualified family' members on the board and that at least one-third of the board should be independent. It also discussed the benefits of a having a board that was entirely external or expert-based.

The Italian code stated that:

a well-functioning system of governance has to favour the dynamic achievement of two objectives: (i) the ability of the owner family to express a clear vision of the future of the company/subsidiary group; (ii) the possibility of (family or non-family) management to implement said vision using the best available resources on the market. (AIDAF, 2017: 4)

The Italian code focused on corporate governance and business management, with less attention to family governance. The code highlighted the advantages of adopting a corporate governance system in which:

powers are balanced and the interests of the company in respect to all interests, both proprietary and not, are represented, are aimed at ensuring continuity and growth, thus characterizing a modern concept of sound and responsible entrepreneurship. (AIDAF, 2017: 7)

Similarly, the Pakistani guidance focused most attention on corporate governance and business management. The advice was prescriptive and little explanation provided, but included practical recommendations in line with legislation around the duties of directors.

Corporate governance guidance across all the countries included advice on the duties, size, composition and operation of the board, the chair's role and the role of independent directors - their selection and remuneration.

Family Governance

Typically, guidance was provided on family governance structures and mechanisms such as family councils, family constitutions (charters, protocols), and the relationship between the family and the company. Some also included guidance on succession decisions and process, family employment, communication, and preventing or managing conflict.

The Swiss guidance stressed control mechanisms, and suggested family governance requirements depended on how much influence the family had on the business. Family governance was expected

to ensure business stability and protect against issues arising within the business owning family. Recommendations included defining family goals and values and expressing these in a family charter; producing a clear wealth strategy; organizing family reunions and establishing a family council; formulating a clear communication policy; and developing strategies for succession and for involving the next generation in the business.

The code for German firms claimed that family governance had two main goals: first, 'to strengthen and foster long-term consolidation of the feeling of cohesion on the part of the owner family and their identification with the company – in the sense of a common project'; and, second, 'to avoid potential conflicts or help resolve them' (May et al., 2015: 31). One chapter in the code covered principles and activities for achieving 'solid family governance'.

The Netherlands guidance on family governance aimed to achieve a 'functional entrepreneurial family'. It recommended, for example, producing an historical narrative of the family business and working with family members to define the family's mission and its vision for the business. The guidance detailed how to encourage good communication and consensus among family members, and how to establish a family council. The guidance also included recommendations for the business family regarding: family leadership; engaging the next generation; successful succession; involving family members in the business; preventing and managing family conflict.

The guidance for Spanish family firms explained the purpose of family governance, then detailed advice on family councils, family assemblies, and the relationship between them. Given the systems approach underpinning this guidance, it emphasised the family-business relationship and the relationship between family and corporate governance structures, for example, how the board and family council should interact, recommending a formal 'family protocol' document to help clarify and manage the relationship and governance arrangements.

The Finnish guidance explained why and how owners' councils and family councils should be formed. The owners' council was seen as distinct from the family council, with a narrower remit. The guidance also discussed raising the next generation as an aspect of family governance.

The Pakistani guidance on family governance focuses on the rights of shareholders and states that these 'should be respected and protected by forming a functioning family council' (CIPE, 2008: 9). Family governance in the Pakistani guide did not go beyond basic guidance on representation on the family council and management of conflict.

Family governance was not covered separately in the Italian code; instead the guidance on corporate governance was tailored to the particular circumstances of unlisted family-controlled firms.

Management

Interwoven within governance guidance were recommendations relating to business management. Guidance typically included advice on recruitment and remuneration, the role of executives in governance, and the involvement of family members in running the business.

The Swiss guidance for family businesses included a chapter on business management, with recommendations on strategy and structure, decision-making, reporting, compliance, remuneration, corporate culture and ensuring professional qualifications not family membership were the basis of recruitment. The guidance for German firms also included a chapter dedicated to management that started by defining the responsibilities and duties of company management, providing advice on composition, remuneration, family involvement and employment in the firm. The Pakistani guidance included a section on the management of employees that provided simple statements of how they should be treated. The Finnish guidance included warnings and advice on the employment of family members. The Netherlands guidance also included advice on business operations, particularly where they came into conflict with 'family traditions and values' or the priorities of individual family members. They recommended family firms should be professionally managed to remain 'sufficiently entrepreneurial and innovative' and cautioned against conservatism and continuing with non-profitable activities where the motivation may be 'family pride', stating 'this conservative attitude can be a grave handicap in business terms' and 'sticking to the closed character of the family business can have important negative consequences for its own development' (FBNed, 2003: 24-5).

Social and Environmental Responsibilities

Guidance relating to the external environment, stakeholder engagement and societal responsibilities did not figure strongly in the codes, which notably focused on internal controls and governance. An exception was the Swiss guidance, which included advice on 'public governance' and effective cooperation with external stakeholders to preserve and promote the company's public reputation. The code advised family businesses to 'demonstrate an active concern for the public and the environment,' providing recommendations on reporting, the treatment of employees, the mitigation of negative environmental impacts, effective management of resources, philanthropy and community engagement. The guidance advocated reporting on environmental and social goals and activities, noting that 'information and reporting on economic, social and ecological performance

can boost long-term success and the reputation of the company' (Continuum and Prager Dreifuss, 2008: 29).

There was a small section on transparency and corporate responsibility in the Spanish guidance, covering reporting, annual accounts, relationships with non-family members, social and environmental responsibility. The Gulf countries code included a section on 'engaging the public', highlighting the importance of philanthropy. The Pakistani guidance included a section on 'Ethics, Disclosure and Transparency' but this did not go much beyond statutory audit and reporting requirements.

Discussion

It is interesting that governance codes for family businesses, without exception, take the individual company as the object in focus. None of the codes or guidance acknowledged that business families could have a portfolio of interconnected companies, other than nods towards declaring conflicts of interest. Clearly, this is a major omission. Some individuals, and particularly business families, might yield enormous power and influence through interconnected roles, shareholdings and dependencies that on their own might not be viewed as significant. Whilst from an entrepreneurial perspective, business families can provide increased opportunities, resources and support that improve chances of success (Discua Cruz, Howorth and Hamilton, 2013), from a governance perspective they can present opaque decision-making, expropriation risks and increased opportunities to hide malpractice. Power structures within business families can allow certain family members to influence decision making behind the scenes, informally and formally.

By treating each firm as a separate family business, governance codes ignore the reality that business families operating as a formal family business group frequently make decisions at the group level rather than in individual firms' boardrooms. Different firms may be implicitly connected through family stakes and leadership positions leading to expropriation risks for minority shareholders and creditors. Related party transactions, which enable such expropriation, are of concern to stock exchange regulators but they do not feature in any of these codes. Furthermore, in the worst cases, business families' group structures can be used to conceal malpractice and environmental wrongdoing, through obfuscation and distancing the main firm from their affiliates (ten Kate et al., 2021).

A key element in effective governance is identifying the locus of decision making power and attenuating potential abuses of power. By not addressing or even acknowledging shadow decision

making, expropriation risks or the potential to hide malpractice through complex structures in business families, the very purpose of family business governance codes is undermined as they cannot assure transparency nor accountability.

The reason for this omission appears to be partly because governance codes for family businesses are presented in terms of improving the performance of individual companies. The authors of codes tended to family business associations, networks or advisers whose main purpose is to educate and advocate for family businesses, rather than hold them to account. The recommendations provided were usually sensible but in most cases based on moral, quasi-legal or practical principles rather than evidence-based findings. The codes and guidance implicitly, and sometimes explicitly, suggested that adopting their advice and recommendations would lead to improvements in business performance, with assumptions about subsequent increases in shareholder wealth left unsaid. Indeed, the Finland guide opens with 'Good corporate governance strengthens and clarifies the activities of the family firm while improving its competitiveness.' In many cases, a business case underpins the argument for adopting good governance with implications of 'you will make more money' rather than 'you need to act responsibly and be accountable for your actions'. This is at odds with increasing recognition and emphasis on stewardship principles within some business families. The underlying (agency) theory of corporate governance assumes a separation of ownership and control and individuals who are self-serving, assumptions that do not necessarily apply to more socially-oriented organisations, including some business families. Family managers and owners may act as stewards, doing what they believe is best for the business, the family or indeed the environment. Nevertheless, most guides stated their aims in terms of business improvement rather than accountability, responsibility or indeed stewardship.

The codes/guidance varied considerably in the extent to which they addressed ownership and shareholders, management, environmental and social responsibilities. Management recommendations were often interwoven with governance recommendations. Management is about processes, structures and arrangements that mobilize resources whereas governance, broadly defined, is about ensuring 'accountability, transparency, responsiveness, rule of law, stability, equity and inclusiveness, empowerment, and broad-based participation' (UNESCO, 2021). Most codes did not go beyond internal governance and paid little attention to responsibilities towards the external environment, stakeholder engagement and corporate social responsibility, perhaps with the exception of the Swiss code.

Codes and guidance were shaped by the country context and some minor variations could be linked to legal and regulatory requirements. Some of the recommendations in the Dutch guidance cite Dutch company law, and the authors of the Italian code referred to the Italian Civil Code. The Swiss code was compiled by a working group of Swiss corporate and legal experts and therefore represents their perspective on how to achieve good governance in family firms. There was little mention or consideration of how family businesses might vary in their country and the implications for governance. Carney (2005) argued that the institutional context could have a direct bearing on any competitive advantage that might be obtained through 'good' governance. Analysis of the codes and guidance here suggest that countries around the world may tend towards an Anglo-Saxon conception of good governance despite variations in their political and economic environments, the structure of their industries, society and culture. Underpinning the Anglo-Saxon model is individualism, common law, strong institutions, and developed economies, which are clearly not the case for business families in many parts of the world (Gupta and Levenburg, 2010). Business families in different countries vary in their conception of ownership; for example, Latin American families may have a more collectivist approach (Gupta et al., 2008). Some countries are dominated by concentrated ownership often within dynastic families (Koh and Lee, 2020). For business families operating in some parts of South America, transparency could increase risks of kidnap or worse (Sandino Vargas, 2020) and governance is within a context of protecting family and property. There were strong similarities across the recommendations in the guides we reviewed, with emphasis on a managerial approach to governance, individual companies, controls and hierarchical structures, similar to Cadbury's 1992 report. Family governance was an addendum to the managerial model, emphasising control and risk management with little attention to the positive aspects of family ownership. Our sample selection could have made this more likely but we would suggest that the influence of Cadbury and the UK system on governance codes around the world is substantial.

Our analysis also highlights that family business researchers and academics could do more to ensure that their thoughtful, nuanced conceptualisations of business families are shared with the objects of their research and fed into policy and practice.

Conclusion

Whilst it is encouraging that governance codes and guidance have been developed specifically for family businesses, it is disappointing that they rarely acknowledge the prevalence of business families with interconnected portfolios of businesses and assets, and often, significant influence. Codes were very inward looking and there was little consideration of business families' relationships

with, and responsibilities towards, the societies and environments that enable and support them. Although not mentioned explicitly, the maxim of maximising shareholder wealth was implicit in the way that codes and guidance were presented. Whilst this may help to convince some business families of the value of adopting the advice, it means that codes and guidance risk being self-serving and failing to deliver accountability regarding business families' wider responsibilities.

Good governance processes and structures clarify relationships, rights and responsibilities to ensure that businesses are governed effectively and responsibly, whereas inadequate corporate governance is often a factor in corporate scandals and failures (Cuomo et al., 2016; Mallin, 2018). While poor governance might constrain or destroy a business and it is assumed well-governed businesses may create more value, there is limited evidence on the impacts of 'good' governance. Occasionally, the guidance we reviewed drew on evidence to support claims but, typically, the recommendations and advice tended to be unsupported, normative and prescriptive. This is not surprising, as assessments of the impact of governance measures are challenging. Cadbury (2000a) emphasised that quantitative measures, for example on the composition of boards, do not capture how effective or competent directors are, nor do they give insights into effectiveness of processes. Studies that examine individual business performance fail to capture the business interconnectivity that occurs in business families and within society. It is difficult to tease out shadow decision making and relational governance measures in business families (Nichol, 2021). Some codes provided thoughtful comments about issues that family businesses might face and they drew on the experiences of a range of participants. However, a thorough understanding is needed of the effectiveness of different governance mechanisms in particular circumstances.

Governance codes aim to improve trust in businesses, providing mechanisms that increase transparency and accountability, alongside or in addition to legal and regulatory requirements. If governance is about responsibility, transparency and accountability, perhaps we should not be assessing individual business (financial) performance but instead assessing reductions in business failure, longevity and survival, reduction in corporate scandals, and improvements in societal and environmental impacts of businesses. However, we must first acknowledge the intertwining of businesses within business families and address the resulting governance issues. Moreover, guidance needs to be clear on the purpose of 'good' governance. There is clearly scope for anchoring governance guidance more firmly in research, employing more evidence and getting to grips with conceptual understandings and the realities of business families.

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