The Influence of Relational Governance on the Performance (that is, ability to achieve economic and noneconomic goals) of Family Firms

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This thesis is presented for the degree of Doctor of Philosophy of the University of Western Australia

UWA Business School

Economics

2015
Abstract

The research focus for the study is on understanding how relational governance as an informal level of social control influences family business and the ability of same-family small-to-medium sized enterprises (SMEs) in Australia to be able to achieve their economic and noneconomic goals (e.g. the transgenerational welfare (Chrisman, Chua, Pearson & Barnett 2012) and socioemotional wealth of the family (Gomez-Meja, Cruz, Berrone & De Castor 2011).

In addressing this problematic, this study contributes to understanding that governance in family firms should recognise the influence of relational aspects in creating an informal level of social control in family business, and how these relational aspects influence the ability of family firms to achieve their economic and noneconomic goals. While presenting this discussion, the study has also engaged with understanding how the embedded social, political and economic contexts in which any firm – family or otherwise – influences relational governance. It is subsequently argued that for family firms to be able to achieve their goals and survive as a family in business, they must adopt an integrative approach to governance that melds both relational and formal governance mechanisms in response to their embedded context. In family business this interplay reflects a push-pull tension. The push of the relational aspect of governance, which emerges due to the distinguishing feature of family involvement in family (as compared to nonfamily) business, can create opposing goals to the pull that external contextual issues have on business responses to governance. The present study has utilised a mixed methods approach and analytic techniques and draws on a social capital perspective (Nahapiet & Ghoshal, 1998) combined with the concept of mixed embeddedness (Kloosterman, Van der Leun & Rath 1999) to present this discussion.

Implications for theory and practice subsequently emerge. The theoretical implication is that governance in family business is an integrative approach that combines relational governance with more formal mechanisms. From a practical perspective, both operational and strategic initiatives pursued by family business need to develop an in built flexibility to accommodate the push-pull tension between relational governance and the influence of the embedded context on governance in family business.
Acknowledgement

It would not have been possible to complete this doctoral thesis without the help and support of the kind people around me.

Above all, I would like to thank my family for their personal support and great patience at all times. I’m deeply grateful for my parents, Loi Mei Wa and Lou Chan Kuan. They raised me, taught me and provided me the opportunity for pursuing my educational endeavours in Australia. My mother has always been a constant source of emotional support. My father has enlightened me to explore the wonderment of knowledge. To them I dedicate this thesis.

I would like to give my special thanks to my wife Ee Sian whose patient love enables me to complete the final stage of this thesis.

I owe my deepest gratitude to my uncle Mr. Donny Loi. Without him I would not be in Australia pursuing my tertiary study, which in turn allows me to start my new life in this beautiful and friendly country. This thesis is my tribute to the Down Under that welcomes and embraces me.

I am very much grateful to my supervisor Dr. Donella Caspersz for her encouragement, supervision and support during this adventurous academic journey. As she said, ‘PhD is a character-building process’. In this context her inspiration facilitates an invaluable opportunity for me to become a better person. To me, you are a wholehearted educator taught with great passion.

I would like to thank my co-supervisor Winthrop Professor Rob Lambert for his helpful advice at the concluding stage of this thesis.

I also wish to thank Dr. Catherine Lees and Dr. Min Qiu for helping me to develop my background in quantitative study, and staff at the Business School of the University of Western Australia for administrative assistance over the past eight years.
I would like to acknowledge Josephine Smith for providing professional editorial advice. However, her services were limited to advice on language, illustrations, completeness and consistency in accordance with the Institute of Professional Editors Ltd ‘Guidelines for editing research theses’.

And last but not least, I am thankful to all the participants for allowing me to interview them. It is literally impossible to complete this thesis without their generosity and support to academic research.
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<tr>
<td>ABS</td>
<td>Australian Bureau of Statistics</td>
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<tr>
<td>BCSWA</td>
<td>Business Coaching Systems Western Australia</td>
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<tr>
<td>CBC</td>
<td>Coastal Business Centre</td>
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<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<tr>
<td>CCIWA</td>
<td>Chamber of Commerce and Industry Western Australia</td>
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<td>EFA</td>
<td>Exploratory Factor Analysis</td>
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<tr>
<td>FBAWA</td>
<td>Family Business Australia of Western Australia</td>
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<tr>
<td>FSC</td>
<td>Family Social Capital</td>
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<tr>
<td>GFC</td>
<td>Global Financial Crisis</td>
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<td>GPN</td>
<td>Global Production Network</td>
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<tr>
<td>MSA</td>
<td>Measure of Sampling Adequacy</td>
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<td>OSC</td>
<td>Organisational Social Capital</td>
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<tr>
<td>RBV</td>
<td>Resource-based View</td>
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<td>SBDC</td>
<td>Small Business Development Corporation</td>
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<td>SEM</td>
<td>Structural Equation Modelling</td>
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<td>SME</td>
<td>Small and Medium-sized Enterprise</td>
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A Glossary of Key Terms

**Agency costs** are defined as ‘the sum of the monitoring expenditures by the principal’, the bonding expenditures by the agent and the residual loss’ (Jensen & Meckling 1976, p. 308), or ‘the costs of structuring, monitoring, and bonding a set of contracts among agents with conflicting interests…and the value of output lost because the costs of full enforcement of contracts exceed the benefits’ (Fama & Jensen 1983, p.304).

**Agency problem** can be described as the separation of management and finance, or—in more standard terminology—of ownership and control.’ (Shleifer & Vishny 1997, p. 740).

**Associability** is defined as ‘the willingness and ability of participants in an organisation to subordinate individual goals and associated actions to collective goals and actions’ (Leana & Van Buren 1999, p.541).

A **board** is defined as a mechanism that assists a private firm in formalising the governance relationship between the manager and the financier and by depersonalising this relationship, it focuses on enhancing the accountability of management (Gubitta & Gianecchini 2002). Regardless of business type (even in family business), a board is a form of governance for the firm to ensure the effectiveness of the decision-making process and often created when the business faces the need for development and growth (Gubitta & Gianecchini 2002).

**Closure** is the existence of a sufficient level of ties between members that makes the adherence of norms between members become highly likely.

**Cognitive social capital** represents the shared interpretations and language among individuals (Nahapiet & Ghoshal 1998) that provides a common channel to exchange information and knowledge.

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1 Jensen and Meckling (1976, p. 308) further explain that the term ‘monitoring’, which includes more than just measuring or observing the behaviour of the agent. It includes efforts on the part of the principal to ‘control’ the behaviour of the agent through budget restrictions, compensation policies, operating rules etc". 
**Corporate governance** focuses on protecting and/or enhancing financial performance (e.g. the rate of return) for investors and the firm (Shleifer & Vishny 1997). In this regard, corporate governance functions as an instrument for stakeholders and external factors (e.g. Fama & Jensen 1983). Some research focuses specifically on how corporate governance helps firms to monitor performance (e.g. Cadbury 1992; Keasey & Wright 1993) and remain accountable to their constituencies, as there is often the likelihood of a deviation in the objectives of managers and owners mainly due to the inability of diffused shareholders to monitor and control the activities of management (Berle & Means 1932).

**Economic embeddedness** is referred to as the market conditions that determine business activities. This dimension can be further discussed by examining environmental turbulence.

**Effective norms** are the informal rules and shared expectations that ‘groups establish to regulate the behaviour of their members’ (McShane, Olekalns & Travaglione 2010, p. 316) and achieve the intended goals successfully. Effectiveness norms help strengthen social cohesiveness of groups or communities by encouraging members to act selflessly in the collective interest of others (Coleman 1988). In the family firm’s context, effective norms, such as teamwork and egalitarianism, may help to strengthen families by leading family members to act selflessly in the family’s interest and developing synergy by balancing the interest between family and business. These norms should motivate the controlling family to be collaborative and successful (Lansberg 1999a).

**Embeddedness** can be viewed as the process whereby social relations shape economic actions in specific ways (see also mixed embeddedness).

**Environmental turbulence** can be defined as frequent and/or unexpected changes in technological and market conditions (Jaworski & Kohli 1993), or factors outside the organisation that have a major influence on the success or otherwise of the business (Glassop, Hagel & Waddell 2008). These factors include Global Financial Crisis (GFC), changes in the marketplace, technology and competition in a free market economy. To a larger extent, a firm’s operation, market and economic
trends are all embedded within its institutional context, such as government policies with enforcement that affect the opportunity structure (Esping-Andersen 1996).

A **family council** can be the forum for discussing important family business issues, and communicating family policy on business issues that may affect family members, such as compensation and employment criteria. It comprises only business active, share-holding family members, who can help the firm to make decisions for the whole family, and establish a clear boundary between the family and the business (Moores 2009).

A **family firm** can be viewed as a business that is owned, managed and controlled by **MORE THAN one** family member of a **single** family. A single family is one that consists of family members with kinship-based relationships working together; and that dominantly influences ownership, management and key decision-making processes in the firm (Glassop, Ho & Waddell 2005; Moores 2009). A family firm is therefore one where there is tension stemming from the systematic interaction between family, ownership and business management (Davis & Tagiuri 1989; Habbershon, MacMillan & Williams 2003), or where family involvement demonstrably affects decision making and ability to meet economic and noneconomic goals of the family business.

**Familiness** is described as a bundle of resources and capabilities resulting from the interaction between family, management and ownership (Grant 1991; Habbershon & Williams 1999). This bundle of resources comprises reputation and experience, insight and skills (human resources), learning and decision-making (organisational resources) and relationships and network (process resources) (KPMG Family Business Survey 2011, p.8).

**Family altruism** is referred to as the extent of mutual support among family members (Daily & Dollinger 1992; James 1999b; Miller & Le Breton-Miller 2006) and is built on emotional ties and familial closeness, and contributes to family harmony (James 1999b).

**Family involvement** is defined as the means by which the family encourages and preserves a desired ‘culture’ within the business that reflects family values and
attitudes, and sustains their competitive advantage. In this study, family involvement is conceptualised as the influence that social ties between family members have on the nature and quality of the relations between them.

**Family governance practices (FGPs)** are generally referred to as the structures or mechanisms intended to facilitate the family’s relationship with the business, including an organisation of management, supervisory, ownership and family in a family business, with the goals being to create value and accountability over successive generations (Gersick et al. 1997; Mustakallio, Autio & Zahra 2002; Neubauer & Lank 1998; Ward 1997).

**Family management unit** is the term created in the present study to refer to family members who are linked by network ties that are embedded in family relationships. These members play the roles of owners and/or managers, and are therefore responsible for making strategic and operational decisions of a family firm. Hence, the family management unit represents the structures that are particularly denoted by network ties (e.g. constitute informal channels; provide access to resources) and network configuration (the structure of the networks characterised by size and density; from which trust and reciprocity originate) (Nahapiet & Ghoshal 1998; Stone & Hughes 2002).

As such, the term ‘size of the family management unit’ is used because it helps indicate the number of family owners and/or managers involved in making strategic and operational decisions of a family firm.

**Family institution** as per Mustakallio, Autio & Zahra (2002, p. 208) includes ‘informal get-togethers, formal family meetings, family councils and family plans that represent and integrate the needs and interests of the owner-family members and link the family and the company’. In this thesis, the term is used to describe the social platforms that are used by family members to discuss any family and/or business-related matters, exchange information and interact with each other.

**Family social capital** (‘FSC’) (Arregle et al. 2007) results from the relationships and interactions among family members (Miller & Le Breton-Miller 2006; Zahra 2010). As family relationships continue, increasing interdependence and interactions...
produce greater levels of trust (based on shared norms and values), principles of reciprocity (obligations) and exchange among family members. FSC is different from ownership social capital as this is defined as the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by the business owners (Matser 2012).

**Governance** is about the structures, frameworks, controls, accountabilities and responsibilities that together help the firm to meet its strategic objectives and manage risks.

**Institutional embeddedness** is referred to as government policies with enforcement that affect the opportunity structure (Espring-Andersen 1996).

**Mixed embeddedness** is defined as the crucial interplay between the social, economic and institutional contexts of a firm’s operation (Kloosterman, Van der Leun & Rath 1999).

**Multiplexity** is referred to as the overlap between two social networks with the same people linked together across different roles (Portes 1998). Multiplexity allows an intense community life and strong enforcement of norms, higher levels of obligation and trust-based norms in both family and firm (Coleman 1990; Portes 1998).

**Network configuration** is the structure of the networks, from which trust and reciprocity originate (Nahapiet & Ghoshal 1998; Stone & Hughes 2002). Network configuration has two aspects: *network centrality*, which is the degree to which an individual has ties within the network and exerts influence; and *network closure*, which examines the extent to which all actors in a network are related to one another (Nahapiet & Ghoshal 1998).

**Network ties** provide access to resources, and constitute a valuable source of informational-type benefits — the ‘who you know’ affects ‘what you know’ (Nahapiet & Ghoshal 1998).
**Norms** are the informal rules and shared expectations that ‘groups establish to regulate the behaviour of their members’ (McShane, Olekalns & Travaglione 2010, p. 316).

**Norms of reciprocity** can be described as ‘one good turn deserves another and that people should treat others as they themselves would like to be treated’ (Lewis & Chamlee-Wright 2008, p. 115).

**Organisational social capital (‘OSC’)** is broadly defined as a resource reflecting the character of social relations within the organisation (Leana & Van Buren 1999, p.538), including ‘the goodwill and resources that companies gain from their relationships with other companies’ (Zahra 2010, p. 345).

**Particularism** follows from the personalisation of authority (personalism) (Carney 2005). By unifying ownership and control, the owner-manager can play a dominant role in personalising their authority to integrate their vision with the firm’s operation (Chua, Chrisman & Sharma 1999). In this scenario, the notion of particularism manifests itself when the family views the firm as ‘our business’ (Demetz & Lehn 1985).

**Performance** in this thesis refers to the ability of family firms to meet their economic and noneconomic goals.

**Personalism** represents the unification of ownership and control concentrates and incorporates organisational authority in the hands of members of the controlling family. Family members as managers tend to operate the business under fewer constraints as they may exempt themselves from the internal bureaucratic constraints (such as human resource management practices) that can limit their managerial authority (Carney 2005).

**Relational social capital** refers to the nature and quality of connections among people and specifies ‘how well a group of people know each other’.
Relational governance is an informal level of social control that is linked to the social relations between family members in a firm (James 1999; Mustakallio, Autio and Zahra 2002; Uhlancer, Floren & Geerlings 2007).

Relational trust is referred to as trust based on the repeated interactions over time between a trustor and a trustee (Nooteboom 2002). Different to trust per se, the concept of relational trust engages with that of obligations. Obligations represent a commitment or duty to undertake some activity in the future (Nahapiet & Ghoshal 1998). Obligations facilitate mutual expectations, which in turn can influence access to knowledge by people (Bourdieu 1986).

Referrals are the processes that provide information on available opportunities to people or actors in the network. Referrals provide the opportunity to combine and exchange knowledge.

Relational embeddedness is one of the dimensions of social embeddedness, and can be defined as ‘the personal relationships people have developed with each other through a history of interactions’ (Nahapiet & Ghoshal 1998, p. 244).

Resource-based View (‘RBV’) of the firm is referred to as a firm’s internal idiosyncrasies and resources being identified as a critical component of its potential advantage (Barney 1991; Habbershon & Williams 1999), such as human capital, as this is a resource that cannot be duplicated and potentially creates values, which in turn enables a firm to compete against its potential rivalries (Barney 1991).

A shared vision serves as a conceptual ‘roadmap’ that outlines the family members’ collective ideas about the future of the firm. By defining family purpose, mission and values, a shared vision becomes the most important practice to ensure long-term family business growth (Ward 1997).

Small to medium size enterprises (SMEs) can be defined as businesses that have between five and 199 employees (Australian Bureau of Statistics 2013).
**Single/Same-family involvement** refers to the *one* controlling (both in ownership and management terms) family in a family business. In an Australian context, a same family is a single family that consists of family members with kinship-based relationships working together; and that dominantly influences ownership, management and key decision-making processes (Glassop, Ho & Waddell 2005; Moores 2009).

**Social capital** can be generally viewed as a concept that captures the nature and dynamics of relationships embedded in a social network (see e.g. Bourdieu 1986) or social structure (see e.g. Coleman 1988), which facilitates the actions of the individuals, who are interlinked by their social relations (see e.g. Coleman 1988; Lin 2001; Putnam 1995).

**Social embeddedness** refers to the noneconomic attachments and institutions that may shape perceptions, motivations, and actions, and thereby influence economic behaviour (Granovetter 1985).

**Social identity theory** offers a framework of understanding the social categorisation of individuals (e.g. organisational membership, religious affiliation, gender and age cohort) (Tajfel & Turner 1985), the distinctiveness and prestige of belonging to or being associated with groups, the functions of social identification in terms of leading to activities that are congruent with the associated identity, support for institutions that embody the identity, perceptions of self and others, and outcomes that are associated with group formation, and eventually how it reinforces the antecedents of identification (Ashforth & Mael 1989).

**Social interaction** is referred to as individuals who engage in exchanging knowledge and participating in activities they know collectively (Mustakallio, Autio & Zahra 2002; Nahapiet & Ghoshal 1998).

**Stewardship** is referred to as ‘the managers’ and owners’ attitudes to do their best for the owning family’ (Miller & Le Breton-Miller 2006, p. 74). Their stewardship is often manifested in lifelong commitment to the firm, and assiduous management of
organisational resources (Davis, Schoorman & Donaldson 1997 cited in Miller & Le Breton-Miller 2006).

**Stewardship theory** posits that many leaders and executives aspire to higher purposes at their jobs that they are not simply self-serving economic individuals, but often act with altruism for the benefit of the organisation and its stakeholders (Davis, Schoorman & Donaldson 1997 cited in Miller & Le Breton-Miller 2006).

**Structural embeddedness** is one of the dimensions of social embeddedness, and can be defined as ‘the impersonal configuration of linkages between people or units’.

**Systems theory** depicts the competitive tensions between family, ownership and business as three interlinking systems in strategic management. The standard theoretical model can be represented as interlinking systems between family and business), or referred to as three-circle model (Davis & Tagiuri 1989).

**Trust** is a trait embedded in an exchange relation. Trust plays a central role in shaping the closeness of social bonds among people. Hence, trust can be defined as ‘the confidence people will work for mutual gain’ (Cooke & Morgan 2000, p. 30).

**Trustworthiness** is referred to as the obligations that will be repaid and the actual extent of obligations held by individuals sharing the same social relations (Coleman 1988). Trustworthiness is the effect of trusting relationships over time (Fukuyama 1995; Putnam 1993).
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Introduction

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

Chua, Chrisman & Steier (2003, p.331)

In Australia, approximately two-thirds of all businesses are family businesses (Moores 2009; Parliamentary Joint Committee on Corporations and Financial Services 2013). Family businesses employ the majority of the Australian workforce (Authority of the Senate 2009; Glassop, Hagel & Waddell 2007; Smyrnios & Dana 2006). As Moores (2009, p.2) states:

‘It is no exaggeration to suggest that family business is a vital contributor to the overall health of the national economy’.

Australian family firms have identified governance as the most critical aspect that influences their firm performance (Glassop, Hagel & Waddell 2007, 2008; KPMG Family Business Survey 2011; Moores 2009). Governance can be described as a task that builds better businesses. As Nordqvist, Sharma and Chirco (2014, p. 192) suggest, governance ‘involves building and sustaining a set of structures and processes that enable owners to prioritise, articulate, and achieve their shared objectives amidst the realities of changing external and internal environment’. The KPMG Family Business Survey, which is one of the only agencies to collect data about family business in Australia, describes governance as being ‘about the structures, frameworks, controls, accountabilities and responsibilities that together help the firm to meet its strategic objectives and manage risks’ (KPMG Family Business Survey 2011, p 13).

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It should be noted that the study does not intend to compare the difference between family firms and non-family firms against the governance-firm performance relations. The discussion above is to acknowledge the characteristics of family firms, and the fact that the relationship between family involvement and firm performance remains inconclusive.
Despite the economic significance of Australian family business, robust knowledge on family business governance is almost absent in Australia. More generally, research about governance in family business has emphasised economic matters as opposed to noneconomic issues (see e.g. Fiegener 2010; Gersick et al. 1997; Gomez-Mejia, Numez-Nickel & Gutierrez 2001; Miller & Le Breton-Miller 2006; Schulze et al. 2001). It is argued that understanding the relational aspect of governance in family business advances family business imperatives while enabling the family to derive noneconomic benefits (Glassop, Hagel & Waddell 2008) such as transgenerational welfare (e.g. Chrisman et al. 2012) and the influence of socioemotional wealth of family firm behaviour (Gomez-Mejia et al. 2011).

Hence, the significance of the present study is to provide an original conceptual and empirical understanding of how relational governance influences family business and the ability of same-family SMEs in Australia to be able to achieve their economic and noneconomic goals. Understanding the role of family involvement in the business helps unravel this conundrum, as it is this that most influences governance in family business (KPMG, 2011; Glassop, Hagel & Waddell 2008; Moores 2009; Smyrnios & Dana 2006). In the 2013 KPMG Family Business Survey 60 per cent as compared to 29 per cent in 2011 of all respondents listed formalising the family role in the governance of the business as the sixth most important issue that was of concern to them (KPMG Family Business Survey 2013). In summary, family involvement crucially affects governance in family firms.

Family involvement is generally measured by assessing the percentage of family ownership, the numbers of family members who are managers in the firm and the generational involvement of family members in the business (Chrisman, Chua, Pearson & Barnett, 2012). When measured this way, family involvement is synonymously linked to multiplexity, or the overlap that arises in family firms because the same people generally play multiple roles as family and owner in the one firm (Chua, Chrisman & Sharma 1999; Gersick et al. 1997; Glassop 2009; Habbershon, Williams & MacMillan 2003; Portes, 1998; Tagiuri & Davis 1996). Multiplexity is a feature of Australian family businesses, given that approximately 83 per cent of family members are directly involved in both the ownership and
management of their family firms (Smyrnios & Dana 2010). Multiplexity can generate challenges unique to family business operations, as family business owner/managers juggle family concerns with business imperatives (Moores 2009), including challenges in approaching governance as owner-family members adopt multiple roles in the business (Mustakallio, Autio and Zahra 2002).

It is suggested that in terms of governance, firms that are primarily owned by the same family (a single entrepreneur or family of owners) often rely on informal level of social controls rather than formal controls such as a board of directors (Nordqvist, Sharma & Chirco, 2014; Uhlaner, Floren & Geerlings 2007; Hite, 2005). In Australia, family firms generally lack formal management planning, such as strategic long-term business plans, to guide their firms through changing business cycles, and formal management practices, such as written job specifications for management, regular performance appraisals and frequent management meetings (Smyrnios & Dana 2006). More importantly, while 31 per cent of small and 47 per cent of medium size businesses had a formal board, 47 per cent of small and 54 per cent of medium size businesses had an informal advisory board that they described as an ad hoc meeting that sometimes involved advisors (KPMG Family Business Survey 2013). This is as compared to 72 per cent of large family businesses who had formal boards, and only 40 per cent who operated with informal advisory boards, mainly because ‘family business stewards in the early life stages of the business typically favour informal governance and control mechanisms’ (KPMG Family Business Survey 2011, p.5).

The informal level of social control that family businesses appear to rely on to guide their business has elsewhere been described as relational governance (Mustakalio, Autio & Zahra 2002; Hite, 2005; Uhlaner, Floren & Geerlings 2007), which is a level of social control that is linked to the social relations between family members in a firm (James 1999; Mustakalio, Autio and Zahra 2002; Uhlaner, Floren & Geerlings 2007). Undoubtedly, family business values these social relations for its own operational and strategic considerations. For instance, 84 per cent of firms

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3 According to Smyrnios & Dana (2010), 82.2 per cent of the surveying owners are also the CEOs of their businesses. Likewise, Smyrnios & Dana (2006) stated that the vast majority of Australian family firms used a 100 per cent ownership structure. Among these firms, approximately 40 per cent of their management teams comprise 100 per cent family membership.
surveyed in the KPMG Family Business Survey 2013 believed that family values had a considerable impact on the way in which the business operated (KPMG Family Business Survey 2013). More importantly, 72 per cent as compared to 59 per cent in 2011 of all survey respondents indicated that balancing family concerns with business interests was their top priority (KPMG Family Business Survey 2013). Thus, understanding family values and norms helps explain the reasoning behind the adoption of managerial practices in family firms (Lubatkin, Durand & Ling 2007), as family values are tenacious and likely to influence not only organisational values but also the overall effectiveness of family firms (Meglino & Ravlin 1998).

The aim of this introduction is to describe how the study has explored the research focus: that is, how relational governance influences the ability of family firms in Australia to be able to achieve their economic and noneconomic goals, and how relational governance is influenced by the embedded social and economic context in which any firm – family or otherwise – operates. The study begins with conceptualising what distinguishes a family from a nonfamily business before discussing how the study has addressed this research focus.

**What Distinguishes Family Business?**

The challenge of defining a family business is to understand its uniqueness from nonfamily firms. This does not merely refer to the fact that members of a family⁴ own and/or manage a business, but specifically, how the ‘family’ influences the firm’s strategy, processes and hence ability to meet economic and noneconomic goals (Davis & Tagiuri 1989; Fiegener 2010). As Davis (1983, p. 47) suggests a family firm should be viewed as:

‘the interaction between two sets of organisations, family and business, that establishes the basic character of family business and its uniqueness…policies and directions are subject to significant influence by

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⁴ In the study, the term ‘family’ is referred to as individuals that have kinship ties. In family businesses, kinship ties are imbued with emotive content, hence the rise of practices recommended to manage the relationship between ‘family’ members, business ‘owners’ and the ‘business’ itself as a discrete entity (Gersick et al. 1997).
one or more family units through ownership and sometimes through the participation of family members in management.’

Thus, in family as compared to nonfamily firms, decision-making not only reflects business imperatives; due to multiplexity (Portes 1998) or the same family members occupying the roles of owner and manager of the firm (Tagiuri & Davis 1996), family involvement is inevitable in the business as the interests of the family and business combine (Gubitta & Gianecchini 2002; Handler 1989).^5^

The term ‘family involvement’ has been defined in the KPMG Family Business Survey (2011, p 6) as “the means by which the family encourages and preserves a desired ‘culture’ within the business that reflects family values and attitudes, and sustains their competitive advantage”. The influence of family involvement on a family firm is related to two aspects (Olson et al 2003). The first is family adaptability, a family’s ability to change the firm’s power structure, role relationships and relationship rules in response to its business environment. In the multi-generation family firms, family adaptability significantly affects work satisfaction of the next generation, their organisational commitment and therefore their propensity to leave (or remain) in the family business (Smyrnios & Dana 2006).

The second aspect of family involvement is family cohesion, which is referred to as the degree of closeness and emotional bonding experienced by members in the family (Olson et al. 2003). Tagiuri & Davis (1996) assert that family relationships stimulate motivation, increase trust and cement loyalties, which allow the family to work as a group and develop a ‘family language’ that enables them to communicate more efficiently and exchange information with greater privacy. This becomes an essential aspect of family life given that interaction patterns in daily living provide organising principles and foster coordination between family and business. Eventually, the existence of family closeness is distinguished as one of the values that characterises family businesses (Ward 1988). When behaving in accordance with the family’s beliefs and practices, family firms have been regarded as making a greater commitment to achieve their business goals (Moscetello 1990). Where this

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^5 In using the term ‘involvement’ it is recognised that this can vary a great deal between family firms, that is, there are degrees of involvement, which may be due to the positions that family members occupy in managerial positions, and also different levels of share ownership that may be distributed between family members.
cohesion does not exist, both family and business can be negatively affected (Moores 2009).

Family involvement has been conceptualised in a number of ways. The F-PEC Scale of Family Influence for instance developed by Astrachan, Klein & Smyrnios (2002) provides another way to conceptualise family involvement in family business. Three dimensions comprise the F-PEC: power, experience and culture. *Power* is defined as a family’s dominance exercised through ownership (such as financing the business) and through management and governance participation (such as leading and controlling the business by the family). A family also brings *experience* to the business through their knowledge and skills. Finally, *culture* is defined as the values and family commitment to business. It is contended that these three dimensions provide a clear and operational definition of family involvement, which enables ‘comparisons across businesses concerning levels of family involvement and its effects on performance’ (Astrachan, Klein & Smyrnios 2002, p. 46).

This interplay of ‘family’ and ‘business’ or family involvement in family business, is also a core concept in family business studies using the Resource-based View (‘RBV’) of the firm (see Habbershon & Williams 1999). The RBV is referred to as a firm’s internal idiosyncrasies and resources being identified as a critical component of its potential advantage (Barney 1991). This advantage is shaped by a firm’s ‘resources’, which can be described as different combinations of levels of assets and capabilities possessed by a firm (Hart & Banbury 1994), or generally, stocks of available factors that the organisation owns or controls (Amit & Schoemaker 1993). Resources are converted into final products or services by using a wide range of other firm assets and bonding mechanisms, including technology, management information systems, incentive systems, and trust between management and employees (Cabrera-Suarez, De Saa-Perez & Garcia-Almeida 2001, p.38). From a RBV perspective, a firm’s advantage lies in human capital, as this is a resource that cannot be duplicated and potentially creates values, which in turn enables a firm to compete against its potential rivalries (Barney 1991).

In family firms, Habbershon & Williams (1999) suggest that the RBV helps understand family involvement in developing a firm’s resources, particularly through the concept of *familiness*, which is described as a bundle of resources and
capabilities resulting from the interaction between family, management and ownership (Grant 1991; Habbershon & Williams 1999). This bundle of resources comprises reputation and experience, insight and skills (human resources), learning and decision-making (organisational resources) and relationships and network (process resources) (KPMG Family Business Survey 2011, p.8).

Ideally, family involvement should create value for both the family and the business (Chua, Chrisman & Steier 2003), be a unique strength for family firms (Daily & Dollinger 1992; Jensen & Meckling 1976), and contribute to a positive firm performance by building a culture of stewardship (Anderson & Reeb 2004; Chrisman et al. 2004; Eddleston & Kellerman 2007). In fact, ‘some of the most admirable and high-performing businesses in the world have had a family interest driving them and shaping their culture – companies like Wal-Mart, Samsung, Cargill, Fiat, Motorola, Tata, and Marriott’ (Nicholson 2008b, p.74). From the RBV perspective, familiness can provide competitive advantages as it can impact on the take-up rate by family firms of business practices that contribute to firm performance (Habbershon & Williams 1999). It is because multiplexity allows members of the owning family to maintain their personal and direct control on management (e.g. family members can selectively develop and exploit the relationships with their preferred stakeholders such as their clients, suppliers, and/or business partners, and the associated strategies to manage these relationships), thus creating the familiness of family firms (Habbershon & Williams 1999). By discretely developing and exploiting these relationships or ‘social capital’ (Carney, 2005), a family firm develops its competitive advantage against rivals and becomes a more desirable choice in resource-scarce environments (Chang et al. 2008).

In addition, familiness helps create transgenerational wealth, which can be referred to as a continuous stream of wealth that spans generations (Habbershon & Pistrui 2002). This provides a rationale for family firms to develop and maintain strong relationships with their stakeholders such as long-term suppliers (Habbershon, Williams & MacMillan 2003), usually based on a reputation for trustworthiness or integrity (Aronoff & Ward 1995). The alignment between ownership and management can also strengthen the bonding relationships inherent within families, and lengthen the business longevity of the firm because family managers tend to
link their business actions to the welfare of other family members (Gomez-Mejia, Numez-Nickel & Gutierrez 2001; James 1999a). Consequently, family managers are less inclined to prioritise personal interests over family welfare, thereby creating the effect of family altruism (Daily & Dollinger 1992; James 1999b; Miller & Le Breton-Miller 2006). Referring to the extent of mutual support among family members, family altruism is built on emotional ties and familial closeness, and contributes to family harmony (James 1999b).

The concept of family altruism implies that it is an emotional bonding experienced by members in the family that influences family involvement in management and ownership (Gomez-Mejia, Numez-Nickel & Gutierrez 2001; Olson et al. 2003). Specifically, family firms that align ownership and management appear to have the tendency to practice ‘family altruism based on emotional and kinship ties’ (Daily & Dollinger 1992; James 1999b; Miller & Le-Breton-Miller 2006), which can naturally align the owner’s and manager’s interest about growth opportunities and risks, such as reducing risks associated with the conflicts of interests between both parties (Fama & Jensen 1983; Jensen & Meckling 1976). As a result, family altruism unifies family and business interests and subsequently contributes to family harmony (James 1999b). As such, families may practice psychosocial altruism, which focuses on the transfer of norms and values, rather than economic goods, and are in turn more likely to achieve governance efficiencies (Lubatkin, Durand & Ling 2007).

Dyer & Handler (1994) also argue that family firms have the tendency to lower the risk of mismanagement because relations in family firms are based on kinship and made up of trust. This consequently creates a common bond and mutual expectations that are more likely based on emotions and sentiments than a non-family business (Gomez-Mejia, Numez-Nickel & Gutierrez 2001). Ideally, these emotion-based relations that are made up of kinship, trust and altruism can counter-balance opportunistic behaviours (Daily & Dollinger 1992; Gomez-Mejia, Numez-Nickel & Gutierrez 2001, James 1999a), and vest the personalisation of authority in the owner-manager (see e.g. Chua, Chrisman & Sharma 1999). As a result, the controlling family tends to be cautious in resource allocation before finalising business decisions (Durand & Vargas 2003). This unique nature of family
firms enables family members to overcome the ‘free rider problem’ (Anderson & Reeb 2003), hence maximising their wealth more successfully than non-family firms, as the wealth of the family is directly linked to the future of their own businesses (Chami 1999; James 1999b).

In line with this logic, family firms can reduce moral hazard problems, which are referred to as opportunistic behaviours that stem from the conflicting interest between the owners and managers (see e.g. Daily & Dollinger 1992; Fama & Jensen 1983; Gomez-Mejia, Numez-Nickel & Gutierrez 2001; Jensen & Meckling 1976). The owning family of a family firm is inclined to be risk-averse and tightens up control of operations, as their decisions can directly affect their wealth (Carney 2005).

However, while there are many conceptual explanations for family involvement, empirical research (e.g. Berent-Braun & Uhlaner 2012; Dyer 2003, 2006; O’Boyle Jr, Pollack & Rutherford 2012; Uhlaner, Tan, Meijaard & Kemp 2008; Westhead & Howorth 2006) argues that actual family involvement in business (ownership and management) does not necessarily exert this influence. Research further suggests that an incongruity between family and business goals can create managerial constraints (e.g. Gomez-Mejia, Numez-Nickel & Gutierrez 2001; Lubatkin, Durand & Ling 2007; Schulze 2001), suffocate growth and innovation (see for example, LaPorta et al. 1998; Shleifer & Vishny 1997), particularly when family firms tend to prioritise wealth preservation. One illustration of this is what is described as ‘destructive nepotism’ (Schulze, Lubatkin, & Dino 2001; Schulze, Lubatkin, Dino & Buchholtz 2003), which can lead to executive succession on the basis of family whims rather than competence (Le Breton-Miller, Miller & Steier 2004). Governance inefficiencies will occur if family firms practice family-based altruism, such as parents’ unconditional transfer of normal goods to children (e.g. goods intended to gratify economic wants for consumption and leisure), prioritising their children’s interests to their own (Le Breton-Miller & Miller, 2009; Lubatkin, Durand & Ling 2007; Schulze et al 2001), or providing for family members’ needs regardless of their individual contributions (Kerr et al. 1960). These practices can be

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*According to Anderson & Reeb (2003), family influence (on ownership and management) can avoid the free rider problem, which is referred to as opportunistic behaviours. As the family’s wealth is so closely linked to firm welfare, families tend to have strong incentives to monitor managers and minimise managerial opportunism.*
to the detriment of firm profitability and ultimately firm performance (Chandler 1990; Poza, Fukuyama 1995; Hanlon & Kishida 2004).

Several empirical examinations further confirm little or no significant difference between family and non-family businesses in relation to pursuing financial performance (e.g. business growth as measured by indicators such as sales growth) (Westhead & Cowling 1997; Westhead & Howorth 2006). Research findings from Uhlaner et al. (2008) even suggest that the correlation between family orientation and growth or risk orientation is non-existent. Empirical evidence from O’Boyle Jr, Pollack & Rutherford (2012) similarly states that family involvement in business is not necessarily a competitive advantage, or disadvantage per se, with the findings confirming that family involvement did not significantly impact firms’ financial performance. Other theoretically-based research further suggests that the management of a family business is indifferent from the management of non-family firms: that is, the owner(s) in family firms should monitor and assess managers’ performance to ensure that the firm achieves sound financial outcomes (e.g. Chua et al. 2009; Jensen & Meckling 1976; Lubatkin et al. 2005).

In addition, Fiegener (2010) suggests that family ownership should be an antecedent to, rather than a form of family involvement, as family ownership empowers family involvement in the strategic decisions and operations of the business. That is, while the owner-managers of family firms affect the wellbeing of both the family and the business (Davis & Harveston 1998), it is they who possess both authority and discretion to involve their family members in strategic considerations and management aspects such as governance (Fiegener 2010). Finally, it has been argued that an inadequacy emerges because analyses mainly draw on agency theory to conceptualise the problematic of governance in privately-held firms including family business (e.g. Uhlaner, Wright & Huse 2007). Agency theory highlights the ‘agency problem’ facing family firms, because they combine ownership and control in the one business model (Fama & Jensen 1983; Shleifer & Vishny, 1997). However, family business, by definition, has to operate with this agency problem. Thus, while useful in identifying the problematic of governance, agency theory cannot capture the complexities and uniqueness that characterise family firm performance associated with family involvement in family
firms, such as predicting the effect of family influence (owner attitudes and behaviours) in explaining firm performance (Uhlaner, Floren & Geerlings 2007).

While the matter of debate, it is nonetheless clear that because family involvement in the business influences the values (KPMG Family Business Survey 2009), vision (Churchill & Hatten, 1987; Habbershon & Williams, 1999) and strategy of a family firm, family involvement will also influence the firm’s approach to governance and ultimately, performance (Davis & Tagiuri 1989; Chua, Chrisman & Sharma 1999; Habbershon, Williams & MacMillan 2003; Fiegener 2010; Chrisman, Sharma, Steier & Chua, 2013; Nordqvist, Sharma & Chirico, 2014), including the ability to achieve noneconomic goals (e.g. Chrisman, Chua, Pearson & Barnett 2012; Chrisman, Sharma, Steier & Chua, 2013). As a result, family involvement in family firms nuances ‘performance’ away from solely being linked to meeting economic goals to placing at least an equal emphasis on noneconomic goals. This is because these noneconomic goals are related to the family itself, and hence attains a special importance (Westhead & Howorth, 2007). Using a social capital perspective, noneconomic goals reflect the social ties that exist between family members and hence are relational in nature. Thus, noneconomic goals may arise from the emotional value of family firm ownership (Astrachan & Jaskiewicz, 2008; Zellweger & Astrachan, 2008), the relative importance of family social capital (e.g. trust) in meeting economic goals (Arregle, Hitt, Sirmon & Very, 2007; Pearson, Carr & Shaw, 2008), and the emphasis family firms place on the creation and conservation of socioemotional wealth for the family (Gomez-Mejia, Hynes, Nunez-Nickel & Moyano-Fuentes 2007).

In Australia, around 84 per cent of all respondents to the KPMG Family Business Survey 2013 agreed that family values have a substantial impact on the way the business is operated (KPMG Family Business Survey 2013, p. 19). As a result, achieving noneconomic goals for a family business are as crucially important as economic goals to the overall performance and survival of the firm as a family firm. When considering this (that is, the significance of noneconomic goals for family business), family involvement is influential in family firms beyond strictly commercial considerations. Family involvement however is also critical in fostering a desire to preserve and enhance the business for future family generations to capitalise on (Moores 2009). Hence, both the immediate and future
success of family firms depends on the ability to manage family involvement in the business itself (Gersick et al. 1997; Gubitta & Gianecchini 2002).

Thus, the relational nature of family involvement becomes clearer when considering the scope of the influence that family involvement can wield on family firms. As previously discussed in this Introduction, while informed by the conceptualisations of family involvement proposed by Astrachan, Kelin & Smyrnios (2002), Habbershon and Williams (1999) and Olsen et al (2003), family involvement in the study is conceptualised as the influence that social ties between family members have on the nature and quality of the relations between them. Such influence of family involvement means that family business has to incorporate relational aspects that are associated with the family in business in their governance approach, which in turn influences the ability of family firms to be able to achieve their economic and noneconomic goals.

To summarise, it is family involvement in family firms that distinguishes a family from a non-family firm. This is because family involvement influences not only the ownership structure, but also the family firm’s operations, strategic decision-making, and subsequently the ability of family businesses to perform their economic and noneconomic goals (see e.g. Glassop 2009; Habbershon, Williams & MacMillan 2003; Moores 2009; Tagiuri & Davis 1996; Waddell 2005).

Thus, a family firm is a unique and complex business entity (see e.g. Chrisman, Chua & Litz 2003, 2004; Chua, Chrisman & Sharma 1999; Habbershon, Williams & MacMillan 2003; Mustakallio, Autio & Zahra 2002; Tagiuri & Davis 1996), which can be viewed as a business that is owned, managed and controlled by more than one family member of a single family. The term single family is one that consists of family members with kinship-based relationships working together; and that dominantly influences ownership, management and key decision-making processes in the firm (Glassop, Ho & Waddell 2005; Moores 2009). A family firm is therefore one where there is tension stemming from the systematic interaction between family, ownership and business management (Davis & Tagiuri 1989; Habbershon, MacMillan & Williams 2003), that is, where family involvement demonstrably affects decision making and the ability to meet economic and noneconomic goals of the family business. Hence, the success of family firms
depends on the ability to manage the relationship between the family and the business itself (Gersick et al. 1997; Gubitta & Gianecchini 2002). As a result, family business governance can be described as the organisation of management, supervisory, ownership and family in a family business, with the goals being to create value and accountability over successive generations (Neubauer & Lank 1998; Ward 1997).

**Thesis Structure**

In this study, the unit of analysis studied is the *same-family* owned small to medium size enterprises (SMEs)\(^7\), which can be defined as businesses that have between five and 199 employees (Australian Bureau of Statistics 2013). Australian family businesses are predominantly SMEs by business size (Glassop, Ho & Waddell 2005, 2007; KPMG Family Business Survey 2008; KPMG Family Business Survey 2011; KPMG Family Business Survey 2013; Moores 2009; Smyrnios & Dana 2006, 2010). It is argued that distinguishing the family firms as per business size is significant as it shapes the key characteristics of a family firm’s operation. Miller et al. (2007) suggest that the potential differences between larger and smaller firms should not be discounted. For instance, in the 2013 KPMG Family Business Survey of Australian family businesses, only 31 per cent of small, and 47 per cent of medium size family businesses had formal boards, while 72 per cent of large businesses had formal boards in place. Similarly, while 39 per cent of large family businesses had a family council, only 21 per cent of medium size and 18 per cent of small size businesses had a family council in place (KPMG Family Business Survey 2013).

The term *single-family* involvement refers to the *one* controlling (both in ownership and management terms) family in a family business. In an Australian context, a single family that works together consists of family members with kinship-based relationships; and that dominantly influence ownership, management and key

\(^7\) According to the Australian Bureau of Statistics classification (‘ABS’) (2013), business size can be categorised into four groups: Micro Enterprises (with one to four employees), Small Enterprises (with five to nineteen employees), Medium Enterprises (with twenty to 199 employees) and Large Enterprises (with 200 or more employees). Micro Enterprises, Small Enterprises and Medium Enterprises comprise SMEs.

According to this definition, SMEs are enterprises that have between 5 and 199 employees. This is used hereafter throughout the study.
decision-making processes (Glassop, Ho & Waddell 2005; Moores 2009). Again, surveys of family business in Australia confirm that their predominant ownership structure is that of a single-family ownership structure (e.g. KPMG Family Business Survey 2009). However, as a single-family firm, it is the case that two or more family members may own and manage a firm together (Berent-Braun & Uhlaner 2012, p. 104) as a result of kinship or marital ties.

Similarly, the ownership and management of typical Australian family business largely or solely rests with one or more members of a single family. Therefore, because multiple numbers of members from the single-family may both own and operate the business, the single family can be also considered as a group, that is, a collection of two or more people who perceive themselves as a separate social entity, are aware of, and influence one another (Schein 1998). In trying to understand how relational governance influences family business and the ability of family firms to be able to achieve their economic and noneconomic goals, it is important to understand the size of the family group, or termed ‘family management unit’ in this study, as per the numbers of family members who are involved in governance, who they are (e.g. owners and/or managers) and – more importantly – the social ties that exist between them. It is only by gaining this understanding that an appreciation of the nuances of the influence of relations on governance can be gained.

Chapter 1 begins with a discussion about governance before canvassing how family business governance has been described and conceptualised in the literature. As discussed in Chapter 1, analyses about family business governance generally promote a ‘classic treatment’ of governance that calls for a separation of ownership and management, and an approach to governance that is characterized by formal contracts, incentives and monitoring systems (Jensen & Meckling 1976). One explanation may be because analyses of governance in family firms have mostly adopted an agency perspective.

However, as argued in Chapter 1, even social theory frameworks such as stewardship theory (Miller & Le Breton-Miller 2006) and social identity theory (Berent-Braun & Uhlaner, 2012; Uhlaner, Floren & Geerlings 2007) fail to unravel the complexities of how family involvement influences family governance practices (FGPs) and the ability of family firms to meet their economic and noneconomic
goals. FGPs are generally referred to as the structures or mechanisms intended to facilitate the family’s relationship with the business (Gersick et al. 1997; Mustakallio, Autio & Zahra 2002; Neubauer & Lank 1998). Berent-Braun & Uhlaner (2012) argue that family firms can enjoy positive performance by building family involvement through FGPs as these tools can coalesce the views of the family involved in the business, and build a ‘vision and mission’ that can positively influence firm performance. In other words, FGPs can be seen as ‘teambuilding tools that not only enhance the effectiveness of the business-owning family, but also the business it owns’ (Berent-Braun & Uhlaner 2012, p 104). While stewardship theory fails to analyse the significance of pre-existing social ties or the social relations that lie at the foundation of the influence that family involvement exerts on FGPs, social identity theory does not provide the conceptual tools to understand how FGPs, including relational governance, influences the ability of family firms to achieve their economic and noneconomic goals.

While also drawing on social theory, the conceptual framework that has guided this study differs from these conceptualisations by drawing on the concept of social capital to understand relational governance, which creates an informal level of social control in family business. Unravelling relational governance is therefore essential to explain how this relational process influences the ability of family business owners and managers to be able to develop governance processes and practices that assist them in achieving the desired and intended outcomes (that have been identified by both the family and for the business). Hence, Chapter 1 argues that the effect of family involvement on the family firm’s ability to meet their intended goals has to be understood as how relational governance operates to successfully shape a shared vision among family owners and managers for both their family and business.

As such, Chapter 2 argues that the concept of social capital is most useful to inform the discussion about relational governance in this study. The concept of social capital refers to the ‘value’ that arises from interconnected human relationships for an organisation such as a family firm (Bourdieu 1986; Coleman 1988; Nahapiet &

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8 Such as a family constitution, family code of conduct, clear selection and accountability criteria, family council, formal family communication mechanisms and family reunions (Berent-Braun & Uhlaner 2012).
Ghoshal 1998). In family business, this value emerges from the interactions and relationships between family members who are involved in the firm as owners and/or managers in the firm (Miller & Le Breton-Miller 2006; Zahra 2010). As these family members develop and maintain relationships both within and outside the firm, they can build up familial social capital (‘FSC’) (Arregle et al. 2007). This in turn may ‘transcend’ into the business level to create organisational social capital (‘OSC’), which is broadly defined as a resource reflecting the character of social relations within the organisation (Leana & Van Buren 1999, p 538). As Chapter 2 describes, OSC builds associability, which is defined as the ‘degree of willingness and ability of participants in an organisation to subordinate individuals, goals and actions to collective goals and actions’ (Leana & Van Buren 1999, p 451). It is argued that a social capital perspective (rather than a social identity or stewardship perspective, see Uhlaner, Floren & Geerlings 2007) assists in understanding how levels of social interaction between family members foster the effect of relational governance on building a shared vision (such as the strategic direction and operations of the firm), which subsequently influence the development of effective family governance practices and ultimately the ability of family firms to achieve their economic and noneconomic goals.

However, as Chapter 3 argues, while using social capital to analyse the role of relational governance in influencing family business, the study has extended the relational governance model developed by Mustakallio, Autio & Zahra (2002), particularly in conceptualising and elaborating on the configuration and process of relational governance. It is because the authors have to date only provided one publication about their model. This provides an opportunity for the study to provide a more detailed interpretation of the relational governance model. One of the examples is to expand the original meaning of ‘family size’ from the original model of Mustakallio, Autio & Zahra (2002) by creating the term ‘family management unit’. Family management unit indicates not only the size as suggested by Mustakallio, Autio & Zahra (2002) but also the configuration of the family (in this study, single-family) that is responsible for ownership and management of a family firm, and how these family members can be influenced by their network ties (which provide access to resources) and network configuration (i.e. the structure of the networks). As the single-family acts as a group, the interactions between those family members who are in the business become highly
critical in the influence of relational governance on a family firm’s governance and the ability of family firms to meet their economic and noneconomic goals (Glassop, Ho & Waddell 2005; Moores 2009). As an informal control mechanism, relational governance captures these interactions and whether such process subsequently creates a common ‘vision and mission’ among these family members about the targeted outcomes of the firm.

Another conceptualisation in the analysis that the study captures is how the context in which the firm operates also influences relational governance (which fosters FSC and OSC) and family business and subsequently the ability of family firms to meet their economic and noneconomic goals. To provide this analysis, the study has drawn on the concept of mixed embeddedness to inform understanding of the significance of the social, economic and institutional contexts on family business governance (Kloosterman, Van der Leun & Rath 1999; Uzzi 1997). Analysis of this study reveals that like non-family firm operations, a family firm’s operation is influenced by factors such as economic conditions and government policies, which facilitate business growth, hinder or stimulate governance practices and policies. However, as a type of institution embedded in a civil society, family business also develops and maintains its networks with organisations, which may provide reciprocity (e.g. information exchange within industries and markets), and may also furnish a common set of largely unwritten rules with respect to business practices (Kloosterman, Van der Leun & Rath 1999).

As Chapter 4 describes, this study adopts a mixed methods research design, which includes a three-phase data collection and a review of literature that helps inform subsequent stages of quantitative and qualitative data collection. To develop the analysis of this study, the generative research method (Simon, Sohal & Brown 1996) is used as it facilitates the use of both qualitative and quantitative data collection methods, and enables the researcher to employ a series of research phases in which data collected in the preceding stage informs the focus for data collection in the subsequent phases. A combination of qualitative and quantitative techniques also helps avoid potential bias and provide a more complete understanding of the issues being investigated (Bryman 2003; Ticehurst & Veal 2000).
Finally, Chapters 5, 6 and 7 respectively present the research findings of phases 1, 2 and 3, while Chapter 8 provides a discussion about these in relation to extending current conceptualisations of the influence of relational governance on family business and the ability of family firms to achieve their economic and noneconomic goals. The empirical findings suggest that while relational governance exerts a strong influence, mixed embeddedness (social, economic and institutional) also challenges the degree that relational governance is allowed to exert on guiding family firms in achieving their intended goals. At the family level, it is relational governance that facilitates an informal level of social control between family members, including their family values and norms. These shape family members’ shared vision and mission, and will influence the ability of family firms to meet their goals positively (or otherwise). More importantly, this study argues that for family firms to be able to achieve their goals (both economic and noneconomic) and survive as a family in business, they must adopt an integrative approach to governance (i.e. relational and formal) to respond to the influence emanating from the social, political and/or economic context in which they operate with their process of relational governance. While the research finding supports the significance of economic embeddedness (e.g. ‘pushing’ family members to formalise governance measures such as boards), social embeddedness may exert a higher influence on this integrative approach to governance, wielding greater influence on the ability of family firms to meet their economic and noneconomic goals. Chapter 8 draws on the findings to present this discussion as depicted in Figure 24 (see page 257), which is the final conceptual model to emerge from this study.

The Significance of the Study

Family business represents the dominant business form worldwide (see e.g. Caspar, Dias & Elstrodt 2010; La Porta, Lopez-de-Silanes, Shleifer & Vishny 1997; Shanker & Astrachan 1996; Van den Berghe & Carchon 2002), and millions of family firms underpin many countries’ economies, including household names such as BMW, Samsung and Wal-Mart Stores (Caspar, Dias & Elstrodt 2010). For instance, the vast majority of European firms are family-owned (see e.g. La Porta et al. 1998; Van den Berghe & Carchon 2002). Likewise, approximately 20 million of the 22 million businesses in the United States are family-owned and controlled (Shanker & Astrachan 1996) and privately held businesses in which families hold
significant ownership or management positions represent 80 per cent of all firms in the United States (Daugherty 2013).

As discussed in this Introduction, family business is an important component of the Australian economy. However, despite the sector's economic significance family business has been overlooked by the Australian Government (see Parliamentary Joint Committee on Corporations & Financial Services 2013) and Australian researchers (see e.g. Craig & Moores 2006; Glassop 2009; Glassop, Hagel & Waddell 2007; Graves & Thomas 2006). In the Senate Proof Adjournment Speech, Senator Sue Boyce states that family business is:

‘a sector to which we do not give sufficient consideration … whilst we here contend with policy and legislative issues such as climate change, industrial relations, financial products and services, access to credit, and of course, tax in all its forms, why isn’t the term ‘family business’ constantly on our lips?’ (Authority of the Senate 2009, p. 2)

Given the absence of robust knowledge on Australian family business, a key significance of this study is the development of an original conceptualisation about family business governance. More importantly, the empirical findings of the study contribute to advancing understanding of the complexities and dynamics of governance that influence family firms in Australia. The fact that most family businesses – similar to those in the present study – are privately-held firms (e.g. KPMG Family Business Survey 2013) has been a major challenge in conducting the study. A further challenge of conducting research about family business in Australia is the lack of a robust, ‘up-to-date’ and accessible statistical database to the general public. Most collections of data about Australian family business are generated by the private sector, mainly large accounting firms such as KPMG. Data accessibility is therefore limited by client databases of these large companies, thus reflecting a bias and limitation in sampling technique. Notwithstanding this, the empirical evidence from this study helps provide an understanding of the dynamics influencing governance of firms operating in the private sector. This represents another significant contribution to family business

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9 For instance, the most recent database of Australian Bureau of Statistics is 1992.
studies. It is hoped that as a result, the study findings and discussion will stimulate further study into understanding the significance of family business to the Australian economy.

Another important significance of this study is to understand issues affecting the ability of family firms to be able to achieve their economic and noneconomic goals. As Chua, Chrisman & Steier (2003, p. 331) argue,

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

As such, value is a combination of economic and noneconomic benefit (e.g. the family may derive from the business the noneconomic benefit of family harmony and social status (Chrisman et al. 2012) or transgenerational welfare (e.g. Chrisman, Chua, Pearson & Barnett, 2012) and the influence of socioemotional wealth on family firm behaviour (e.g. Gomez-Mejia, Cruz, Berrone & De Castor, 2011), such as the gaining of emotional attachment from workers who feel that they belong to an extended family (Chua, Chrisman & Steier 2003, p 332). Glassop, Hagel & Waddell (2008, p. 3) also suggest that ‘lack of formal planning and governance structures (in family business) will inevitably hinder the performance of the business, and could even put the business at risk particularly in uncertain economic times...putting greater structure around the business and its operations along with effective planning and governance could go a long way in helping family businesses maximise their value and balance the competing needs of family and the business.’ As Moores (2009, p.8) notes:

‘The lack of effective governance structure in family business to help sort out issues over the control and management of the family business can all too easily give rise to unnecessary intra-family conflict’.
In summary, a governance framework is necessary to respond to business imperatives and to advance these while maintaining noneconomic goals related to the family (Glassop, Hagel & Waddell 2008).

**The Original Contribution of the Study**

The original contribution of the study is to examine the dynamics of relational governance and how social, economic and institutional embeddedness influence both relational and formal governance in guiding the ability of same-family SMEs to be able to achieve their economic and noneconomic goals. To do this, the study has used both qualitative and quantitative data collection methods and analytic techniques. Drawing on the concept of social capital and mixed embeddedness, the study has also expanded understanding of the social and economic ‘contexts’ that influences relational governance of Australian family SMEs, and how it in turn influences family business governance and the family SME’s ability to meet their intended goals.

There is a growing use of social capital in family business studies (see e.g. Arregle et al. 2007; Hoffman, Hoelscher & Sorensen 2006; Mustakallio, Autio & Zahra 2002; Uhlaner, Floren & Geerlings 2007). Research that draws on a social capital perspective in family business studies mainly explores the role of family relations in influencing business operations (see e.g. Arregle et al. 2007; Hoffman, Hoelscher & Sorensen 2006), such as family business governance (e.g. Mustakallio, Autio & Zahra 2002). While other studies have explored relational governance in family business (e.g. Uhlaner, Floren & Geerlings 2007), these have drawn on other social theory frameworks such as social identity theory, rather than a social capital perspective. However, given that relational governance reflects a social (or relational) form of control (Mustakallio, Autio & Zahra 2002), a social capital perspective helps conceptualise the influence of social relationships on relational governance, which influences family business and subsequently the family firm’s ability to achieve their economic and noneconomic goals.

Social capital has a number of dimensions: structural, relational and cognitive (Nahapiet & Ghoshal 1998). In the context of relational governance, the structural dimensions are conceptualised as per the size of the family management unit, family institutions (which include informal get-togethers, and formal family
meetings and family council) and social interaction, and the cognitive dimension is conceptualised as shared vision. These family institutions create opportunities for family members to meet and discuss family and/or business issues (Mustakallio, Autio & Zahra 2002). Therefore, family institutions influence the level of social interaction which in turn influences the level of agreement of a shared vision for the future of family business’s operation (Mustakallio, Autio & Zahra 2002; Uhlaner, Floren & Geerlings 2007), and in the case of this study, family SME’s.

However, while a social capital perspective helps to capture the influence of internal dynamics associated with social relationships on relational governance, at the same time it is important to consider the influence of external issues such as clients’ expectation and market volatility on governance. The research findings suggest that this applies to all family firms in this study. These issues can influence family firms to professionalise governance, for instance by establishing boards. In this study, these influences are accounted for by drawing on the concept of mixed embeddedness, which captures the crucial interplay between the social, economic and institutional contexts of a firm’s operation (Kloosterman, Van der Leun & Rath 1999). The study argues that from the social embeddedness perspective, family leaders maintain positive relationships not only among themselves, but also with their business stakeholders sharing the same values and norms. These close network ties subsequently strengthen relational trust and norms of reciprocity and over time contribute to the family firm’s ability to achieve economic and noneconomic goals.

On the other hand, factors associated with economic embeddedness, including market instability, strong competition and expectations from business partners, also ‘push’ family members towards institutionalising governance, such as adopting formal governance measures such as boards. Notwithstanding this, relational governance remains a strong influence in guiding a family firm’s operation and decision making. This reflects an integrative approach to governance, which is a complementary mixture of family SME governance between responding to formal structure and retaining relational aspects of management and control.

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10 See Chapter 7, pp. 239-248.
PART A

THE THEORETICAL BACKGROUND OF THE STUDY
CHAPTER 1

Understanding Family Business and Governance

The uniqueness of a family business is that it is both a social entity (the family) and an economic entity (the business).

Waddell (2005)

As suggested in the Introduction, the source of the challenges to governance confronting Australian family businesses is the critical problem family firms face in separating the family from the business (Glassop, Hagel & Waddell 2008), particularly in balancing family concerns with business imperatives, retaining family control and ownership, and fairly compensating those family members with active business involvement (Moores 2009). A dominant theme in current research is that family firms should adopt formal governance structures, such as a board of directors (Smyrnios & Dana 2010) to manage this challenge in their firms, as a formal governance mechanism such as this can provide family firms with the avenue to wield an independent voice that holds family management accountable for its actions (Glassop, Hagel & Waddell 2008).

However, as has already been described in the Introduction, this ‘ideal’ is not the ‘reality’ in the case of Australian family firms: only 44 per cent had a board of directors; around 80 per cent did not have a family council, and 84 per cent of all respondents did not have any family constitution or code of conduct that outlines the family’s values and pre-agreed rules for how family members can participate and be recognised in the family business (KPMG Family Business Survey 2013, p. 27). Briefly, governance in Australian family firms often ‘reflects informal processes and arrangements’ (KPMG Family Business Survey 2011, p.14), namely the involvement of the family\(^{11}\) in the operational and strategic decision making for

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\(^{11}\) As mentioned in the Introduction, the term ‘family’ in this study refers to individuals that have kinship ties. In family businesses, kinship ties are imbued with emotive content, hence the rise of practices recommended to manage the relationship between ‘family’ members, business ‘owners’ and the ‘business’ itself as a discrete entity (Gersick et al. 1997).
the business (Glassop, Hagel & Waddell 2008; KPMG Family Business Survey 2009). Although more family businesses considered governance as ‘very’ or ‘extremely important’, over half of all family business survey respondents considered their current governance structures as ‘mostly’ or ‘completely adequate’, only around 55 per cent had some formal family governance practices (FGPs) in place (KPMG Family Business Survey 2013, p. 22). This, however, represents a significant increase on the KPMG Family Business Survey (2011) (KPMG Family Business Survey 2013, p. 22).

The survey results may indicate that more Australian family businesses are aware of the important role of formal governance in family business, particularly in developing strategic responses to manage the challenge of the influence of family involvement on governance in their firms. As the KPMG Family Business Survey 2009 indicates, ‘the lack of effective governance structure in family business to help sort out issues over the control and management of the family business can all too easily give rise to unnecessary intra-family conflict’ (KPMG Family Business Survey 2009, p.8), and in turn challenges the sustainability of family business (Feltham, Feltham & Barnett 2005). Sustainability can be referred to as the longevity of business goals while retaining the family in the business (Glassop, Hagel & Waddell 2008), requiring consideration of both the ability of the family and business to ‘cooperate in responding to disruptions in a way that does not impede the success of each’ (Stafford, Duncan, Dane & Winter 1999, p. 205). Given the distinguishing feature of managing family involvement in their business, family firms therefore not only have to juggle business imperatives but also maintain family involvement and harmony (Glassop, Hagel & Waddell 2008) when developing their approach to governance. It is suggested that family firms must reconcile both these economic and noneconomic goals to attain sustainability of their business as a family business beyond generations.

The aim of this chapter is to review how the problematic of family involvement in governance has been discussed in current studies in family business. This discussion is contextualised by firstly reviewing what governance is. The final section of the chapter discusses the theoretical approaches that have been used to date to conceptualise the problematic of governance in family business, as this frames the
discussion in the next chapter on the use of a social capital perspective in the present study.

**What is Corporate Governance?**

The traditional definition of corporate governance focuses on protecting and/or enhancing financial performance (e.g. the rate of return) for investors and the firm (Shleifer & Vishny 1997). In this regard, corporate governance functions as an instrument for stakeholders and external factors (e.g. Fama & Jensen 1983). Some research focuses specifically on how corporate governance helps firms to monitor performance (e.g. Cadbury 1992; Keasey & Wright 1993) and remain accountable to their constituencies, as there is often the likelihood of a deviation in the objectives of managers and owners mainly due to the inability of diffused shareholders to monitor and control the activities of management (Berle & Means 1932). The need for corporate governance therefore arises, with the aim being that conflicts of interest that are inherent in all forms of business enterprise need to be controlled by appropriately designed approaches such as incentive contracts (Garvey & Swan 1994), or by engaging non-executive directors of the board of directors to bring an independent judgement on strategy, performance, resources and standards of conduct (Cadbury 1992). Research also suggests that formal governance measures, such as the number of board directors and the existence of audit and remuneration mechanisms (e.g. committee, internal audit department) can positively impact on company performance (e.g. profitability) (Diacon & O’Sullivan 1995).

Thus, the economic development of a firm and its competitive position in a marketplace are subject to the quality of corporate governance. Corporate governance should therefore include ‘the structures, process, cultures and systems that engender the successful operation of the organisations’ to ensure accountability, which involves the ‘monitoring, evaluation and control of organisational agents to ensure they behave in the interests of shareholders and other stakeholders’ (Keasey & Wright 1993, p. 291) and hold the managers of the firm responsible for meeting its strategic objectives and managing risks (KPMG Family Business Survey 2011, p 13). In other words, corporate governance can be understood as the development of a decision-making process that involves a firm’s internal control system and
management body aimed at enhancing the overall effectiveness of the firm’s operational and strategic decision-making (Gubitta & Gianecchini 2002).

Ideally, corporate governance is characterised by an effective separation of ownership and control duties, thereby dividing management and risk-bearing functions (Fama & Jensen 1983). The aim of this arrangement is to *depersonalise* the relationship between suppliers of capital (the principal of a firm or, alternatively, the owner) and the managers of a firm (Carney 2005). A strategy to institutionalise depersonalism in the firm is for the financier and the manager sign a contract that ideally, specifies how the manager handles the funds, and how the returns are to be divided between the manager and the financier (Shleifer & Vishny 1997). Fama & Jensen (1983, p. 302) further describe that:

> ‘These contracts or internal “rules of the game” specify the rights of each agent in the organisation, performance criteria on which agents are evaluated, and the payoff functions they face effective separation of ownership and control in large corporations’.

However, developing and enforcing these contracts incur agency costs, which are defined as ‘the sum of the monitoring expenditures by the principal'\(^\text{12}\), the bonding expenditures by the agent and the residual loss’ (Jensen & Meckling 1976, p. 308), or ‘the costs of structuring, monitoring, and bonding a set of contracts among agents with conflicting interests…and the value of output lost because the costs of full enforcement of contracts exceed the benefits’ (Fama & Jensen 1983, p.304). Jensen and Meckling (1976) further explain that agency costs are related to an agency relationship, which is a contract:

> ‘under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent…in most agency relationships the principal and the agent will incur positive monitoring and bonding costs (non-pecuniary as well as

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\(^{12}\) Jensen and Meckling (1976, p. 308) further explain that the term ‘monitoring’, which includes more than just measuring or observing the behaviour of the agent. It includes efforts on the part of the principal to ‘control’ the behaviour of the agent through budget restrictions, compensation policies, operating rules etc’.
pecuniary), and in addition there will be some divergence between the agent's decisions and those decisions which would maximise the welfare of the principal. The dollar equivalent of the reduction in welfare experienced by the principal due to this divergence is also a cost of the agency relationship, and we refer to this latter cost as the “residual loss” (Jensen & Meckling 1976, p. 308).

Hence, Fama & Jensen (1983) argue that as the components of the organisation’s decision process, an effective system for decision control (ratification and monitoring of decisions) is to some extent separate from decision management (initiation and implementation of decisions). This is because the decision managers, who initiate and implement important decisions, do not necessarily bear ‘a major share of the wealth effects of their decisions. Without effective control procedures, such decision managers are more likely to take actions that deviate from the interests of residual claimants’ (Fama & Jensen 1983, p.304). In addition, there are external stakeholders such as investment and credit analysts, who determine the cost of capital to the firm and monitor the manager’s strategic and operational decisions, and can therefore influence and constrain a manager’s discretion (Jensen 1998).

However, by institutionalising depersonalisation through corporate governance mechanisms, professional managers who hold a fiduciary responsibility to shareholders must ensure that they make legitimate and justifiable decisions to their principals (the owners) (Carney 2005).

Nonetheless, it is almost technically infeasible for the financier to take all ‘externalities' into account when defining the job scope of the manager, as most future contingencies, such as market uncertainties and economic conditions, are difficult to foresee (Shleifer & Vishny 1997). To compensate for this constraint, the

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13 Given the optimal monitoring and bonding activities by the principal and agent (Jensen & Meckling 1976)

14 *Ratification* is defined as choice of the decision initiatives to be implemented; *Monitoring* is the measurement of the performance of decision agents and implementation of rewards (Fama & Jensen 1983, p. 303).

15 *Initiation* is defined as generation of proposals for resource utilisation and structuring of contracts; *Implementation* is defined as execution of ratified decisions (Fama & Jensen 1983, p.303).

16 The residual claimant is the agent who receives the income after deducting all costs (Fama & Jensen 1983).
manager and the financier have to allocate residual control rights, which are referred to as the rights to make decisions in circumstances not fully foreseen by the contract (Hart & Moore 1990). Managers typically have these residual rights of control, as the financiers (the owners) assume that managers possess more expertise than shareholders of the firm (Shleifer & Vishny 1997). Under such circumstances, managers are given enormous latitude for inefficient actions. To counteract this occurrence, managers are usually granted incentive contracts, such as share ownership, stock options, or a threat of dismissal if income is low (Jensen & Meckling 1976).

In the literature about large, listed corporations, discussion of corporate governance focuses on the role of boards, specifically on the board’s monitoring function on behalf of external stakeholders (Gabrielsson, 2003; Huse, 2000; Uhlaner, Wright & Huse 2007; Van den Heuvel, 2006). A board is defined as a mechanism that assists a private firm in formalising the governance relationship between the manager and the financier and by depersonalising this relationship; it focuses on enhancing the accountability of management (Gubitta & Gianecchini 2002). Regardless of business type (even in family business), a board is a form of governance for the firm to ensure the effectiveness of the decision-making process and often created when the business faces the need for development and growth (Gubitta & Gianecchini 2002). This is because individuals holding critical positions in the company often become members of a board. These members intend to improve the decision making process by a number of approaches, such as focusing on the discussion of strategic objectives, fostering discussion and coordination among themselves, solving operational problems, verifying the implementation of strategies, and taking corrective actions if needed (Gubitta & Gianecchini 2002).

Heracleous (2001, p. 166) associates a board with effective governance as ‘having a majority of outsiders on the board, particularly independent share-holding directors with no management ties and being responsive to investor requests.’ An active board of outside directors is considered ‘best practice’ in corporate governance (Heracleous 2001), as it heightens accountability of the business by improving the quality of corporate decision making and planning (Smyrnios & Dana 2010). An ‘independent’ board allows shareholders to impose constraints on managers’ actions (Core 2000). The establishment of a board subsequently improves the
decision-making process to ensure its control and accountability (Gubitta & Gianecchini 2002; Heracleous 2001; Smyrnios & Dana 2010).

Until now, the discussion relating to corporate governance focuses on calls for separating ownership and management through formal contracts, incentives and monitoring systems (Jensen & Meckling 1976). However, much of the research and academic debate regarding this ‘classic treatment’ of governance pertains mainly to large listed firms (Uhlner, Wright & Huse 2007), rather than family firms. The next section therefore discusses how other research attempts to explain the uniqueness of family business governance through the lens of corporate governance and other conceptual approaches.

**Understanding Governance in Family Business**

As has already been discussed in the Introduction, the major challenge facing family firms in adopting governance mechanisms such as a board is that of family involvement. Multiplexity\(^{17}\) lies at the source of this tension. That is, while in the ‘classic treatment’ of corporate governance such as boards the owner and manager are thought to represent non-overlapping stakeholder groups, this is less frequently the case in the family-owned firm (Uhlner, Wright & Huse 2007, p.232). As discussed in the Introduction, the distinguishing feature of family involvement and multiplexity means that family members often possess multiple but overlapping roles in owning, governing, and/or managing the firm (Tagiuri & Davis 1989).

While this unification of ownership and management in family business can have unique benefits for a firm, the complexity associated with combining ownership and management (Neubauer & Lank 1998) makes their governance particularly challenging (Mustakallio, Autio & Zahra 2002), especially when family involvement is perceived as a source of resistance to change (e.g., Carney 2005; Gersick et al. 1997; Zahra 2005), or managerial constraints due to the lack of formal governance (e.g. Gomez-Mejia, Numez-Nickel & Gutierrez 2001; Schulze 2001). This is when family managers (the agents) can impose their self-serving desires on the key decisions of the firm (Schulze et al. 2001). That is, when as managers, family business owners may pursue personal goals that are incongruent with what

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\(^{17}\) As discussed in the Introduction, multiplexity is the overlap that arises in family firms because the same people generally play multiple roles as family and owner in the one firm.
they should ideally pursue as owners of the business (see e.g. Jensen & Meckling 1992; La Porta et al. 1998; Shleifer & Vishny 1997). This scenario is particularly applicable to family SMEs because the owner can also be the single decision maker (Feltham, Feltham & Barnett 2005). The excessive concentration of power in a single person in this scenario tends to encourage opportunistic behaviours with the result that—once again—business and family goals may be in conflict (Gomez-Mejia, Numez-Nickel & Gutierrez 2001). Family members may gain executive level positions due to their family status, rather than their skills (Schulze et al. 2001). Such favouritism may even lead to executive succession based on family whims rather than competence (Le Breton-Miller, Miller & Steier 2004), or what Schulze, Lubatkin & Dino (2001) and Schulze, Lubatkin, Dino & Buchholtz (2003) describe as ‘destructive nepotism’. Consequently, these practices can have a negative impact on firm profitability and ultimately firm performance (Chandler 1990; Poza, Hanlon & Kishida 2004). Specifically, destructive nepotism influences the morale of lower level non-family managers, who perceive that family members’ promotions are based on favouritism, rather than evaluation of family individuals’ demonstrated performance to attain these privileged positions (Gomez-Mejia, Numez-Nickel & Gutierrez 2001, p. 83). Eventually, family involvement may mitigate against the development of an appropriate governance framework that can advance the alignment of family and business-related goals (Moores 2009; Smyrnios & Dana 2006).

The challenges presented by family involvement in family firms has led to the call for changes in governance in family business that often aims to separate ownership from management and control (Alchian & Demestz 1972; Berle & Means 1932; Jensen & Meckling 1976; Roe 1994; Williamson 1986). To respond to this, family firms have sometimes developed a delegation process of managerial activities and the involvement of family members in the management bodies through family governance structures such as a family council (Gersick et al. 1997; Ward 1997) whose role is to discuss family related issues. A family council can be the forum for discussing important family business issues, and communicating family policy on business issues that may affect family members, such as compensation and employment criteria. It comprises only business active, share-holding family members, who can help the firm to make decisions for the whole family, and establish a clear boundary between the family and the business (Moores 2009). In
addition, it is suggested that the inclusion of non-family managers and outsiders (such as consultants) strengthen the role of a board of directors as an independent body removed from the day-to-day operations of the business (Glassop, Hagel & Waddell 2008; Lane et al. 2006). An active board also improves the quality of corporate decision making and planning, without significant loss of privacy (Smyrnios & Dana 2010).

While acknowledging a role for a family business governance practice such as a family council, it is nevertheless apparent that most research on family business governance views the development of a formal board as a necessity and – in some respects – a better governance mechanism (see e.g. Lane et al. 2006; Moores 2009; KPMG Family Business Survey 2013). In Australia, there is evidence to suggest an increase in the proportion of family businesses with a formal board (44 per cent in 2013 compared to 39 per cent in 2011) to manage the increasing complexity of balancing family and business interests (i.e. the interests of individual family members are not always well aligned with the needs of the business (KPMG Family Business Survey 2010)), specifically in larger firms (72 percent) as compared to only 31 percent in small family businesses (KPMG Family Business Survey 2013). As such, it is argued that an active board can assist family business owners in dealing with feelings of isolation in their daily struggle to survive and excel. Importantly however, a board can heighten business accountability, which is referred to as the need for decision makers to justify and accept responsibility for decisions taken and their implementation (Lane et al. 2006). Accountability helps family firms avoid conflicts between family members’ roles in the family and roles in business, while preserving an atmosphere of trust and unity (Lane et al. 2006). To attain this, it is recommended that when establishing a separate board of directors, family firms should minimise the use of insiders and include a significant proportion of independent outsiders to exercise objective judgement of management’s performance, as ‘family member only board compositions affect the objectivity of corporate governance, in many cases taking precedence over the health of the company’ (Brenes, Madrigal & Requena 2011, p. 281). The inclusion of non-family managers and outsiders (such as consultants) can instead strengthen the role of a board of directors as an independent body removed from the day-to-day operations of the business (Glassop, Hagel & Waddell 2008; Lane et al. 2006). As they are free from commercial or personal ties that impair their abilities to probe and challenge
management, these non-family directors are considered *independent* (Felton & Watson 2002), and are able to provide objective advice for decision-making (Brenes, Madrigal & Requena 2011). Thus, it is argued that for family business, an active board improves the quality of corporate decision making and planning (Smyrnios & Dana 2010) by considering the needs and desires of the owner family, such as ensuring fluent communication with the family and good administration and operation, conducting strict evaluations of the markets in which the company invests, appraising the analysis and assumptions submitted by managers, setting standards for goals and investment decisions, and supporting management’s creative ideas (Brenes, Madrigal & Requena 2011, p. 282).

The discussion so far reflects what is commonly referred to as the traditional view of governance. In this view, separating ownership from management is critical to formal governance. Hence, the emphasis is on creating institutional mechanisms, such as boards to separate ownership from management, while nevertheless recognising the role that family governance mechanisms, such as a family council, can play in managing family involvement in governance in family business (Glassop, Hagel & Waddell 2007, 2008; Lane et al. 2006; Moores 2009; Smrynios & Dana 2010). As the interests of family members are not always aligned effectively with the needs of the business, the development of family council is important as to ‘discuss and resolve internal family differences vis-à-vis the business can head off a lot of intra-family disputation and animosity’ (KPMG Family Business Survey 2010, p.12).

However, research has found that in family business boards are considered one aspect of governance (Uhlaner, Wright & Huse 2007), and single-owned family firms do not rely on these formal governance practices (Jensen & Meckling 1976). In fact, in the vast majority of privately-held firms such as family business (including those that are relatively large), it has been found that the boards of directors may not only play a *less* significant role (Berent-Braun & Uhlaner 2012, p. 21) in holding management accountable to the firm; boards may also perform less formal advisory tasks and other service tasks, such as formulating and/or ratifying organisational strategy and networking of the firm (Van den Heuvel 2006).
As already discussed in the Introduction, this picture of formal governance practices elsewhere is also the reality amongst Australian family owned firms (e.g. Glassop, Hagel & Waddell 2007, 2008; KPMG Family Business Survey 2011, 2013), as family business, especially in the early life stages of the business, typically favours informal governance and control mechanisms (KPMG Family Business Survey 2011, p.5). Results from KPMG Family Business Survey (2013, p.17) indicate that formal governance mechanisms, such as a board and a family council, were utilised to a greater extent by second and later generation firms compared to first generation firms. This is consistent with Brene, Madrigal & Requena’s (2011, p.281) argument that ‘boards are commonly absent in the first generation, when the owner manages the company directly. The owner usually makes all company decisions and no accountability exists. Entrepreneurs often do not feel the need to have a supporting body for decision making. When the second generation begins to participate in the family business, entrepreneurs start considering setting a board to help them deal with growth and inherent conflict resulting from the incorporation of his/her children into the company’. Again, this demonstrates implications resulting from the growth and complexity of both family and business (KPMG Family Business Survey 2013, p.17).

Nonetheless, despite the lack of formal governance, Australian family businesses have performed reasonably well, mainly due to their shared values and ethos between family members embraced by a committed workforce (KPMG Family Business Survey 2013, p.11). 81 per cent of the KPMG Family Business Survey 2013 respondents reported that being a family business ‘assisted them in coping with the ongoing economic uncertainties’. The majority of these family firms felt they outperformed their key competitors in a range of areas, including ‘product and service quality, productivity, innovation, growth and financial performance’ (KPMG Family Business Survey 2013, p.2). Family firms also identified ‘flexibility to make quick changes’ as one factor that contributed to their resilience in the aftermath of the Global Financial Crisis (GFC), which has adversely affected approximately 36 per cent of Australian family businesses (Smrynios & Dana 2010). As a result, ‘family businesses are able to be more responsive to market conditions and therefore consistently and productively deliver superior service and products to their customers’ (KPMG Family Business Survey 2013, p.11).
Berent-Braun & Uhlaner (2012) argue that it is the difference in family governance practices that may help to explain why some business-owning families tend to be more financially successful than other family firms. As a means to enhance entrepreneurship of the business-owning family, family governance practices, such as family code of conduct, and clear selection and accountability criteria of family members, can be seen as teambuilding tools that ‘not only enhance the effectiveness of the business-owning family, but also the business it owns’ (Berent-Braun & Uhlaner 2012, p.104). Their study further suggests that family governance practices are likely to be associated with better financial performance of the family-owned business as well as the business-owning family. As effective performance of the team depends on common goals and shared vision of the members, family governance practices therefore serve the function of building a strong and unified team (that is, the business owning families have a focus on preserving and/or growing shared wealth), and possibly become a valuable tool in building more enterprising families (Berent-Braun & Uhlaner 2012, p.115). Family governance practices also help strengthen organisational social capital such as associability (Leana & Van Buren 1999; Uhlaner, Floren & Geerlings 2007), which is defined as ‘the willingness and ability of participants in an organisation to subordinate individual goals and associated actions to collective goals and actions’ (Leana & Van Buren 1999, p.541). The shared goal orientation in an enterprising family, such as owner focus on building shared family wealth, is therefore likely to ‘make better decision and to be more committed to those decisions that enhance business performance’ (e.g. Mustakallio, Autio & Zahra 2002).

Thus, for family business, governance is not necessarily related only to formal aspects such as a board, but also the informal, relational aspects of governance practices, as evidence suggests that less than 60 per cent of the surveyed firms had no formal board of directors but instead an informal advisory board where advisers met on an ad hoc basis (KPMG Family Business Survey 2013, p. 23). Survey family-owned firms also seemed to favour frequent, informal discussions about their business and strategies with ‘other family members who also own or work within the family firm’ (KPMG Family Business Survey 2011, p.10). Such an informal level of social control exerted by the owning-family that influence a firm’s operation, particularly in balancing the interests between ‘family’ and ‘business’, is alternatively known as relational governance. In the relational governance model,
the concept of social capital\textsuperscript{18} informs the discussion about the relational aspect of family governance practices, which are the structures or mechanisms intended to facilitate the family’s relationships with the business (Aronoff & Ward 2002; Berent-Braun & Uhlaner 2012; Gersick et al. 1997; Mustakallio, Autio & Zahra 2002; Neubauer & Lank 1998; Uhlaner, Floren & Geerlings 2007), stimulate social interaction, which consequently may increase the likelihood of the business-owning family to form a shared vision, common norms and agreeable norms to govern the behaviours of family members in the firm (Berent-Braun & Uhlaner 2012). Relational governance is therefore considered an informal level of social control that is linked to social relations between family members in a firm (James 1999; Mustakallio, Autio & Zahra 2002; Uhlaner, Floren & Geerlings 2007).\textsuperscript{19}

In summary, a dominant theme in current analyses of governance in family business is to recommend that family businesses adopt formal governance practices such as a board of directors in alignment with the traditional and classic view of corporate governance. However, the influence of family involvement means that family business has to incorporate relational aspects that are associated with the family in business in their approach to governance. This may veer family business towards adopting family governance practices that lead to an informal level of social control, rather than formal governance practices such as boards. Responding to this tension is however important to the ability of family firms to be able to achieve their economic and noneconomic goals, and survive beyond generations as a family business. In academia, the challenge to understand the family business governance problematic relates to the debate in regard to the conceptualisation of family involvement, and more importantly the influence of family involvement in business. As discussed in the Introduction, family involvement in this study is conceptualised as the influence that social ties between family members have on the nature and quality of the relations between them. Family involvement will in turn lead to distinctive goals, behaviours, and performance outcomes (Chrisman, Chua & Sharma 2005; Chrisman, Chua, Pearson & Barnett 2012; Dyer 2006), as a family’s dominant control in the ownership, management and governance of family

\textsuperscript{18}See Introduction, p.15 – the concept of social capital refers to the ‘value’ that arises from interconnected human relationships from an organization such as a family firm (Nahapiet & Ghoshal 1998; Bourdieu 1986; Coleman 1988).

\textsuperscript{19}See Introduction, p.3.
firm provides family owners and/or managers the latitude to personalise authority and make decisions that are less encumbered by internal bureaucratic controls or external accountabilities (Carney 2005; Chrisman, Chua, Pearson & Barnett 2012). However, current conceptualisations have been limited in understanding family involvement as a social process, which crucially influences a family firm’s approach to governance and the ability of family firms to achieve their economic and noneconomic goals. Thus, the following section contextualises this discussion by debating the relevance of current theoretical frameworks to understanding the problematic of family business governance as conceptualised in this study.

**Theorising Governance in Family Business**

**Systems Theory**

A major theme in family business analyses has been to review the relationship between family and business using systems theory. Systems theory has predominantly become a conceptual and analytical vehicle by which to ascertain the interactions of three embedded systems—family, business and ownership. Under this theoretical framework, an organisation is assumed to be a separate or objective entity in which humans are passive (Riordan & Riordan 1993). Systems theory depicts the competitive tensions between family, ownership and business as three interlinking systems in strategic management. The standard theoretical model can be represented as interlinking systems between family and business), or referred to as three-circle model (see Figure 1) (Davis & Tagiuri 1989).
Figure 1: Overlapping Circle Models of Family Business
Source: (Davis & Taguri 1989)

Depicting family firms as composed of the family and the business system, systems theory views family firm performance as a process that seeks to balance the competing interests of ‘family’ and ‘business’, or manages the needs and interests of the competing groups within systems. From this perspective, attaining organisational goals is a result of a ‘trade-off’ between the family and the business system within a family firm, or even a separation of these systems (Davis & Tagiuri 1989). As the salient stakeholders of family firms, members of the controlling family with diverse interests endeavour to find the best possible way that helps the firm achieve its economic and noneconomic goals (Chrisman, Chua & Litz 2003). For example, a family member could be an owner and manager of a family business, thus overlapping his/her role in ‘family’, ‘business’ and ‘ownership’ within the ‘family’ and ‘business’ system. Briefly, the key attributes deriving from the overlap are ‘simultaneous roles, shared identity, a lifelong common history, emotional involvement, private language, mutual awareness, privacy and the symbolic meaning of the family company’ (Stafford et al. 1999, p. 202).

While depicting a static degree of the interaction (overlap) between ‘family’ and ‘business’, the dominant perspective adopted by systems theorists is that the family system ‘penetrates’ the business system, and consequently constrains the performance outcomes of the business (Stafford, Duncan, Dane & Winter 1999;
Whiteside & Brown 1991). Hence, strategic development is considered as a ‘trade-off’ process that balances the competing interests of the family system and the business system, or what Swartz (1989) refers to as the ‘dual systems approach’. Representing two qualitatively different social systems, the dual systems approach is inherently contradicting (Davis & Stern 1980; Lansberg 1983).

**Limitation of Systems Theory**

Systems theory depicts the family business system functioning by suggesting ‘family’ as *emotional-based* and ‘business’ as *task-based*. However, this dualistic stereotyping exaggerates the notion of overlap between ‘family’ and ‘business’ by perceiving the sub-systems interaction as internal negative trade-offs to strategy development and performance outcomes (Whiteside & Brown 1991).

Habbershon, MacMillan & Williams (2003) challenge the pessimistic and stereotypical view proposed by systems theorists, and argue that a family firm’s operation should not *de facto* be considered an effective social system (or otherwise). Instead, a family firm’s operation can be perceived as a process that facilitates the interactive dynamics of the sub-systems (i.e. the controlling family unit, the business entity and the individual family member), and whether such interaction generates systemic synergy that can lead to positive outcomes for the firm. This is conceptualised in the ‘unified systems model’ (Habbershon, MacMillan & Williams 2003), which elucidates the interplay between three sub-systems: the controlling family unit, the business entity and the individual family member. First, *the controlling family unit* is referred to as the history, tradition and life cycles of the family. Second, *the business entity* represents the strategies and structures utilised to generate wealth. Third, *the individual family member* indicates the interests, skills and life stage of the participating family owners/managers.

The unified systems model clearly depicts the systems involved and the defining function of each sub-system by adopting the concept of systems thinking, which can be defined as ‘a discipline for seeing wholes…interrelationships rather than things…patterns of change rather than static snapshots’ (Senge 1990, p. 68). This therefore becomes a task of ‘managing the business’ in relation to both family and ownership sub-systems. Ackoff (1994) expands on this discussion of systems
thinking, and argues that a social system should be studied as a whole by showing how the systemic influences are a product of the continuous interaction of the sub-systems. In contrast to the dualistic assumptions shown in the overlapping circles model (see Figure 1, p.39), the unified systems model conceptualises family firm as a social system, which demonstrates how the systemic influence of ‘family’ and ‘business’ is a product of the continuous interaction of the collection of parts (Ackoff 1994). Taking this perspective, Habbershon, MacMillan & Williams (2003) argue that the literature that explains the negative outcomes of family firms may have its analytical focus on ‘unsystemic behaviour’: that is, the interaction between the sub-systems of the controlling family unit, the business entity and individual family members has not generated any positive, systemic outcomes.

In addition, Stafford et al. (1999)’s sustainable family business (SFB) theory draws mainly from systems theory, but gives equal recognition to family and business and to their interplay in achieving sustainability of family business. Similar to the unified systems model, the SFB theory also views ‘family’ and ‘business’ as social systems that take available resources and constraints (e.g. human capitals of employees, relationships, firm culture, assets and debts of the business) and convert them into achievements through resource transactions (e.g. production of goods and services) and interpersonal transactions (e.g. acknowledge explicitly the emotional orientation of businesses) (Stafford et al. 1999, p. 205). Family business sustainability therefore requires the confluence of both family and business success as individuals in either system may affect both systems (Danes, Stafford & Loy 2007, p. 1059).

Nonetheless, both systems theory and the unified systems model do not further elaborate the operational aspect of family business governance. The uniqueness of family firms as compared to non-family firms is that a family firm’s strategic decision does not only reflect business imperatives, but combines the interests of the family and business through ownership and the participation of family members in management. This is as a result of the multiple roles that a family occupies as both business managers and owners of the firm (Tagiuri & Davis 1996). Such family involvement that inevitably flows from this structural arrangement influences the ownership and strategic decision of family firms (Gubitta & Gianecchini 2002; Handler 1989). While not discounting Habbershon, MacMillan & Williams
(2003)’s conceptualisation of a family firm’s operation, they have not discussed how the interaction between sub-systems informs the *relational* aspect of family involvement in relational governance as a process that influences family business and the ability of family firms to achieve their targeted economic and noneconomic goals. Prior to this discussion, the next section discusses how agency theory can help to analyse governance in family business.

**Agency Theory**

Policy and research devoted to corporate governance has mostly focused on privately-held large corporations (e.g. Gabrielsson & Huse 2004). Corporate governance is often perceived in large corporations as instruments for stakeholders, such as owners and managers, (Keasey and Wright 1993) or other external stakeholders (Freeman & Reed 1983). Agency theory supports these interpretations. This framework is primarily concerned with the relationship between managers and stakeholders, or what Hill & Jones (1992) refer to as stakeholder-agency theory. It is based on the assumptions that managers can be seen as the agents of other stakeholders, and that both stakeholder-agent and principal (often owner of a business)-agent relationships are enforced by governance structures aimed at reconciling divergent interests.

When discussing governance in the family business context, the mainstream literature mainly adopts the theoretical lens of agency theory (see e.g. Fiegener 2010; Gersick et al. 1997; Gomez-Mejia, Numez-Nickel & Gutierrez 2001; Miller & Le Breton-Miller 2006; Schulze et al. 2001). Agency theorists such as Fama & Jensen (1983) and Jensen & Meckling (1976) focus on a firm’s corporate (formal) governance, which is ideally characterised by the separation of ownership and control, thereby dividing management and risk-bearing functions (Fama & Jensen 1983). The analysis of corporate governance is based on a firm’s governance structure, which is referred to as the creation of a decision-making process and its effectiveness, and represents a firm’s internal control system and management bodies (Gubitta & Gianecchini 2002). To assure accountability, professional

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20 The term ‘stakeholder’ refers to groups of constituents who have a legitimate claim on the firm (see Hill & Jones 1992, p. 133).

21 Not all the other groups of stakeholders are principals in the sense implied by agency theory (Hill & Jones 1992).
managers are subject to a set of organisational rules, policies and formal planning procedures that fragment authority in a system of checks and balances (Useem 1993). Briefly, agency theory provides a theoretical framework to understand the problematic of governance by focusing on the agency problem (see e.g. Alchian & Demestz 1972; Core 2000; Roe 1994; Shleifer & Vishny 1997). This can be described as:

‘...the separation of management and finance, or—in more standard terminology—of ownership and control.’ (Shleifer & Vishny 1997, p. 740)

According to Jensen & Meckling (1976), an effective agency relationship exists when the agent (manager) acts upon the best interest of the principal (owner). Consequently, the principal acknowledges the agent’s effort and contribution with financial rewards. Under such circumstance, agency costs, which are expenses incurred to sustain an effective agency relationship, increase (Jensen & Meckling 1976).

Thus, agency theory projects a noteworthy perspective when examining agency costs associated with the separation or unification between ownership and management. Agency costs relates to the costs incurred and the risks inherently associated with using an agent, who is the firm’s manager using the organisational resources for their own benefit (Jensen & Meckling 1976). At the early stage of developing agency theory, Jensen & Meckling (1976) suggest that family firms have low agency costs due to the unification of ownership and control. This is particularly applicable to family SMEs as the owner is also the manager and decision maker (Feltham, Feltham & Barnett 2005). It is argued that the aggregate agency costs in family SMEs are comparatively lower than privately owned non-family firms (Chrisman, Chua & Litz 2004), as the controlling family tends to keep agency costs low and maintain tight control of operations, as their decisions can directly affect their wealth (Carney 2005). On the positive side, a high level of the controlling family’s dependence can be a particular strength of the family firm, mainly due to the unification of ownership and control (Daily & Dollinger 1992). Further, the agency relationships in family firms are also characterised by parental altruism, which is considered a trait that positively links a parent’s welfare to that of their children (Stark 1995 cited in Lubatkin et al. 2005). Similar to family altruism
(see the Introduction, p.8), parental altruism can facilitate trust, communication and reciprocity (through exchange practices including gifts, favours and love) and strengthen a family bond (by aligning incentives among members of the owning family), thus interweaving each family member’s interest towards the family’s mutual welfare, and in turn reducing the cost of governance (Lubatkin et al. 2005).

However, the unification of ownership and control in family firms can be problematic to governance. The agency problem arises when the agents (managers) pursue their own personal goals, which are incongruent with the principal’s (the owner’s) goals, thereby increasing the agency costs (Jensen & Meckling 1992). The potential for this agency problem to arise is magnified in family business, given the uniqueness of family business structure (i.e. the unification of ownership and management) and operations as previously discussed in this chapter. For instance, the unification of ownership and management can contribute to personal rivalries among members of the controlling family, which is a difficult problematic to be resolved through governance (Schulze et al. 2001). In addition, a family sharing strong social bonds characterised by parental altruism can adversely affect the ability of the firm’s owner-managers to exercise self-control (Lubatkin et al. 2005), particularly when they abuse their power by extracting resources from the company or by hiring incompetent relatives (Schulze et al. 2001).

Hence, the family involvement in the business that characterises governance appears to be a double-edged sword to family business governance. On the one hand, agency costs are assumed to be reduced because the emotion-based relations are made up of kinship, trust and altruism that supposedly counterbalance opportunistic behaviours (Daily & Dollinger 1992; Gomez-Mejia, Numez-Nickel & Gutierrez 2001; James 1999a, 1999b; Lubatkin et al. 2005). However, agency costs can increase when there are problems such as the owner-manager exercising self-control (Lubatkin et al. 2005), or even incongruity between personal rivalries, which in turn contribute to managerial constraints (Buchanan 1975; Gomez-Mejia, Numez-Nickel & Gutierrez 2001; Jensen 1998; Morck, Shleifer & Vishny 1988; Schulze et al. 2001). Briefly, the complexity of family firm governance is beyond the explanatory framework of agency theory, which is discussed further in the next section.
Governance Complexity of Family Firms: Beyond Agency Theory’s ‘Control’

Habbershon & Williams (1999) argue that there is no clear and cohesive theoretical framework that facilitates analysis about family influence and its relationship with firm performance. Specifically, it is argued that the research in family business focuses largely on economic issues and excludes noneconomic concerns (e.g. the effect of relationships and emotions on firm performance). Hence, the social dynamics of family business has often been ignored (see e.g. Chua, Chrisman & Steier 2003; Uhlaner, Wright & Huse 2007).

In this regard, the explanatory power of agency theory for this study is limited by the governance complexity of family firms, particularly the role of relationships. As agency theory assumes a low degree of goal alignment between manager (agent) and owner (principal) a priori, the significance of relationships and trust between these individuals is excluded from the analysis (Jaskiewicz & Klein 2007). Hence, agency theory has been criticised for ignoring the effects of good social relationships that might exist between owners and managers (Ghoshal & Moran 1996). In fact, these positive relationships can create family cohesiveness among members of the controlling family, which in turn enables the firm to build informal, self-reinforcing governance mechanisms that complement the formal, contractual governance emphasised by agency theorists (Mustakallio, Autio & Zahra 2002).

In addition, the existence or absence of the agency problem in family business is also debatable, mainly due to the unification of ownership and control of family members. On the one hand, family firms should have no agency problem, as the dual-role (ownership and management) arrangement incorporates the personalisation of authority in the hands of the owners-managers (see e.g. Chua, Chrisman & Sharma 1999), which should contribute to careful resource conservation and allocation (Durand & Vargas 2003), and wealth maximisation, because the fortune of the family is directly tied to the future of the firm (Chami 1999; Habbershon, Williams & MacMillan 2003; James 1999a, 1999b). Agency theorists also suggest that agency costs can be mitigated through effective use of formalised governance mechanisms (e.g. Chrisman et al. 2004; Schulze et al. 2001), and that family firms may be able to employ these formal governance practices effectively. Family management therefore not only reduces agency cost, but also increases stewardship, which can be referred to as ‘the managers’ and
owners’ attitudes to do their best for the owning family’ (Miller & Le Breton-Miller 2006, p. 74). Their stewardship is often manifested in lifelong commitment to the firm, and assiduous management of organisational resources (Davis, Schoorman & Donaldson 1997 cited in Miller & Le Breton-Miller 2006).

On the other hand, the explanatory power of agency theory appears to be more limited, particularly if ‘family agenda’ prevails (Arthurs & Busenitz 2003 cited in Westhead & Howorth 2006). It is argued that the unification of ownership and management can create an agency problem, or alternatively managerial constraints. This occurs when family managers (the agents) impose their self-serving desires on the key decisions of the firm, such as hiring cronies or incompetent relatives, or hold a disproportionate amount of power, which emanates from their family status (Schulze et al. 2001). As a result, this occurrence may create an agency problem as lower level managers may resent the implicit benefits family members obtain from their family status, rather than from demonstrated performance-based measures to sustain their positions (Gomez-Mejia, Numez-Nickel & Gutierrez 2001). Eventually, family status contributes to biased judgements about the appropriateness of executive decisions (Gomez-Mejia, Numez-Nickel & Gutierrez 2001). In short, family owners and managers can sometimes be unskilled managers practicing poor stewardship, particularly when they view their firms as personal fiefdoms (Miller & Le Breton-Miller 2006), thus creating the agency problem.

Understandably, agency theory has not adequately captured the complexity and uniqueness that characterise family firm governance. These analyses have been unable to capture the complexities associated with family involvement in family firms. Specifically, agency theory has its limits in predicting firm performance as family influence, such as owner attitudes and behaviours, may play a role in explaining firm performance (Uhlaner, Floren & Geerlings 2007). For instance, Anderson & Reeb (2003) suggest that family members as owners are more apt to act as “stewards” in their firms, and ‘they are more likely to consider their own personal interests but also shareholder interests as a whole’ (Anderson & Reeb 2003, p.1324). As family firms are inherently different from non-family firms, the stewardship theory helps explain what constitutes the uniqueness of family business, particularly the noneconomic motivations that shape family firm behaviours and outcomes.
Stewardship Theory

Stewardship theory posits that many leaders and executives aspire to higher purposes at their jobs that they are not simply self-serving economic individuals, but often act with altruism for the benefit of the organisation and its stakeholders (Davis, Schoorman & Donaldson 1997 cited in Miller & Le Breton-Miller 2006). Given the presence of family altruism, family members commit deeply to the organisational collective goal, such as the mission of the business (Miller & Le Breton-Miller 2006). As the family's fortune, personal satisfaction and even public reputation are tied to the business (Ward 2004), family owners tend to have an emotional attachment to their firms (Bubolz 2001). In this case, family managers and owners tend to be solicitous stewards, as their names on the business (past, present and future) are interlocked to the reputation of their firm (Bubolz 2001; Miller & Le Breton-Miller 2005).

Stewardship in a family business emphasise continuity and connection (Miller & Le Breton-Miller 2005). First, the owning family is often deeply devoted to assure the continuity or longevity of the business, thus investing in long-term benefits for family members in the firm (Habbershon & Williams 1999). Miller & Le Breton-Miller (2005) argue that stewardship over the continuity of the family business can take several forms, such as more emphasis on research and development, building the reputation of the business, or broadening the market share of the firm. From this process, family members may derive not only vocational fulfilment and economic support from their ownership and management positions (Miller, Le Breton-Miller & Scholnick 2008), but also experience satisfaction from the ability to share, help and support each other in the business (Handler 1989). This in turn contributes to the family's sense of identity with the firm (Miller, Le Breton-Miller & Scholnick 2008). Such family owners/managers' identification with the business subsequently creates an incentive to exercise careful stewardship over the wellbeing and continuity of the business (Arregle et al. 2007).

Referring to the extent of mutual support among family members, family altruism is built on emotional ties and familial closeness, and contributes to family harmony (James 1999b) (see also the Introduction, p.8).
In addition, the family’s goal for business continuity may give rise to stewardship priority, such as creating *connections* with stakeholders (such as customers) who can sustain the business in times of trouble (Das & Teng 1998; Gomez-Mejia, Numez-Nickel & Gutierrez 2001). Hence, family businesses tend to be more interested in building long-term networks and associations with stakeholders (such as clients and suppliers) of valuable resources (Gomez-Mejia, Numez-Nickel & Gutierrez 2001; Palmer & Barber 2001). Top managers in family firms may take a more personal approach by networking with clients through face-to-face involvement (James 2006). This helps solidify connections and increase mutual understanding (Miller, Le Breton-Miller & Scholnick 2008).

Framed by the stewardship perspective, Miller & Le Breton-Miller (2006) also examine the relationship between governance structure and family firm performance, and argue that the owning family with complete control of the firm tend to have strong emotional investment in the business and its associated stakeholders (such as employees, clients), which in turn contributes to financial returns. Family leaders accommodating future family generations also demonstrate stewardship, particularly in capital management. The controlling family tends to adopt conservative financial strategies in the form of less debt and more liquidity (Anderson & Reeb 2003; Daily & Dollinger 1992). In addition, these family firms build social capital through relationships with outsiders such as customers and suppliers (Adler & Kwon 2002; Gomez-Mejia, Numez-Nickel & Gutierrez 2001). As time passes, the long-term networks with these external stakeholders become reputational resources for later generations to capitalise on (Miller & Le Breton-Miller 2006).

Briefly, the key assumption of stewardship theory is that owners and/or managers are collectively-oriented or other-regarding, that is, they share common goals and a mutual commitment to the firm (Uhlenber, Floren & Geerlings 2007). These firms are less likely to require formal controls and incentives than individualistic managers, who are motivated primarily to maximise personal ends (Davis, Schoorman & Donaldson 1997; Leana & Van Buren 1999). Hence, stewardship theory builds upon the basic assumption that *stewards* are the self-motivated...

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23 However, Miller & Le Breton-Miller (2006) have not further tested their analyses with empirical evidence.
individuals to serve the collective interest, while fulfilling both social and higher order needs of growth and achievement (Davis, Schoorman & Donaldson 1997). In the family firm’s context, stewardship theory provides a framework for understanding the behavioural implications of an owning family’s involvement in managing the business.

While being useful as a theoretical foundation for examining the noneconomic motivations that shape family firm behaviours and outcomes (see e.g. Zahra 2003 cited in Fiegener 2010), stewardship theory cannot provide further insights in regards to aspects of family business behaviour that emanate from the involvement of a family (Chrisman, Sharma & Taggar 2007). Examples include the adverse selection resulting from nepotism (Karra, Tracey & Phillips 2006), or the conflicts of interest that might occur between majority and minority family shareholders (Chrisman, Sharma & Taggar 2007).

More importantly, the study argues that the limitation of stewardship theory becomes apparent when examining the role and effect of relationships that exist in family business governance. For instance, James (1999b) suggests that there are two types of relationships in family business: implicit, informal, personal relationships of families; and the explicit, formal, impersonal contractual relationships. In particular, family relationships assist in developing and maintaining the family identity, trust and personal ties among members of a family or families, which in turn can promote incentives for success (James 1999b).

As mentioned in the Introduction (see page 3), the informal level of social control that family businesses appear to rely on to guide their business has been described as relational governance (Mustakallio, Autio & Zahra 2002; Uhlaner, Floren & Geerlings 2007). Such governance mechanism is often evident in privately-held firms, particularly those owned by a single entrepreneur or family of owners (Uhlaner, Floren & Geerlings 2007). On the other hand, traditional governance is characterised by formal contracts, incentives and monitoring systems (Jensen & Meckling 1976). In a market-oriented environment, formal contracts define the impersonal relationships between individuals (Dyer 1986), and become the guiding principles of a firm’s management and operations (Fiegener, Brown, Prince & File 1994). The formal, contractual-based arrangement also reflects the market’s
constraints and incentives, which are all subject to economic-related performance indicators such as profits, growth and market share. These factors not only determine the production and distribution of goods and services within the markets, but also characterise the main objectives of the capital owners and employees (Chandler 1977, 1980). In addition, the explicit impersonal contract defines and specifies the relationship between the firm’s owners and workers by their business roles, obligations and expectations. This helps ensure that the business ‘functions’ effectively and efficiently (Ben-Porath 1980). In this regard, stewardship theory assists in understanding the other-regarding nature of a private firm, that is, owners and managers sharing common goals and a mutual commitment to the firms are less likely to require contractual governance. Nonetheless, stewardship theory does not articulate how these pre-existing social ties are formed.

In fact, the greatest influence of the controlling family on the firm is the pre-existing, implicit, social ties among family members (Aronoff & Ward 1995; Pollak 1985). The implicit, social ties link members of the controlling family together, and shape their roles through the provision of economic and social needs. These roles can be fulfilled by selecting and distributing resources among the family members, or by educating them about norms of society and the external environment around them (Stephens 1963). For instance, norms of equality, trust and loyalty become the common principles that are reflected on the family members’ behaviour and bind their relationships together. The common experiences arise out of the shared family values and norms, and develop the family members’ experiences by living together, sharing common rituals and, as a result, building ‘a deep reservoir of common history’ (Broderick 1993, p. 189). The ‘commonality’ shared among family members increases the social bonding relationships over time, although this process by no means guarantees all family members practice the same level of family norms. This is because family members not only interact within the family’s context, but also with ‘outside’ groups and individuals, such as suppliers and customers of the family business (Dyer 1986).

Hence, the interaction between the family members and their exposure to the business and social worlds may strengthen or weaken the implicit social ties, and the family norms they have commonly shared over time. In other words, it is the implicit, familial relationships that influence how the ‘family’ manages the
＇business’. Based on kinship and family cohesion, the familial relationships can be served as an effective substitute to formal relationships with contractual agreements, and motivate family firms to create wealth and provide business continuity (see e.g. Ben-Porath 1980; Clifford 1993; James 1999a, 1999b). As time passes, the social bonding between family members develops their shared values, such as loyalty, which become internalised and incorporated into individual preferences. These values are arguably the driving force to motivate and monitor behaviours of family members and employees, especially when the fulfilment of these values is perceived as part of family obligation, and a source of work satisfaction (James 1999a; Pollak 1985). Family firms strive to achieve business success by developing the shared values and norms within its social structure.

Social Identity Theory

Finally, as already suggested in the Introduction (see pages 14-15); there are studies (e.g. Berent-Braun & Uhlaner 2012; Uhlaner, Floren & Geerlings 2007) which draw on social theory to inform their analyses. Unlike stewardship theory, social theory, more particularly social identity theory, not only provides an understanding of the other-regarding aspect of owners and/or managers (that is, they share common goals and a mutual commitment to the firm), but also explains the importance of shared collective norms and goals in the context of relational governance (Uhlaner, Floren & Geerlings 2007). Particularly in their study, social identity theory provides an explanation for differences in ownership commitment based on perceived organisational rewards.

Social identity theory offers an effective framework of understanding the social categorisation of individuals (e.g. organisational membership, religious affiliation, gender and age cohort) (Tajfel & Turner 1985), the distinctiveness and prestige of belonging to or being associated with groups, the functions of social identification in terms of leading to activities that are congruent with the associated identity, support for institutions that embody the identity, perceptions of self and others, and outcomes that are associated with group formation, and eventually how it reinforces the antecedents of identification (Ashforth & Mael 1989). This perspective appears to apply to the study of Uhlaner, Floren & Geerlings (2007) with respect to social classification (which enables the individual to locate or define oneself in the social environment). For example, it provides a rationale ‘for the
family to serve as a positive influence on commitment, in that it provides a natural reason for individuals to feel part of an in-group\textsuperscript{24}, and to act accordingly' (Uhlaner, Floren & Geerlings 2007, p. 279).

While acknowledging the relevance of social identity theory in studies of family firm governance, it is argued that this does not assist in understanding the research problematic of this study (that is, how relational governance influences family business, which in turn influences the ability of family SMEs to achieve their economic and noneconomic goals). In order to understand this conundrum, it is critical to understand what relational governance is composed of, the relationships between these components, and how relational governance operates as an informal social control mechanism in family business. For example, family firms can achieve positive performance by building family involvement through family business governance practices, such as a family constitution, family code of conduct, family council, and formal family communication mechanisms (Berent-Braun & Uhlaner 2012). These tools can coalesce the views of the family involved in the business, thus forming the vision that the family will pursue for the firm. As a result, relational governance is pivotal to family business governance, as the relations between family members involved in the firm would build the shared vision, common norms and agreed upon rules to govern the behaviour of family members with respect to operations of the firm (Mustakallio, Autio & Zahra 2002).

In order to understand this dynamic, the study argues that the concept of social capital is most useful in trying to better understand the complex interplay of variables that inform the constructs of relational governance, and subsequently in forming a framework of relational governance within the context of family SMEs. As such, exploring the significance of social identity on governance matters is not the focus of this study. Instead, the concept of social capital has been an appropriate framework to study the many dimensions of social capital in family SMEs that stem from the owner and management team.

\textsuperscript{24} The in-group refers to the family in the context of ownership commitment to a family firm.
Conclusion

It is argued that adopting a social capital perspective fosters understanding of how members of the controlling family influence family business governance and the ability of family firms to be able to achieve their targeted economic and noneconomic goals. As an individual-specific asset, social capital facilitates a social contract between members sharing the same values and identities. Specifically, owners and managers in a family firm have the authority necessary to commit the firm’s assets to transactions ‘on a handshake’. This personal commitment is more binding than arm’s length agreements (Blyler & Coff 2003). Briefly, social capital explains the relational aspect of an organisation, and the influence of this on the development of strategy and the utilisation of resources (Moran 2005; Nahapiet & Ghoshal 1998; Walker 1998). The next chapter describes those aspects from social capital that have been drawn upon to guide the study.
CHAPTER 2

Using Social Capital to Understand Family Business Governance

The importance of social capital to the study of family businesses is that the concept provides a link between macro and micro analyses of business decisions...the social capital approach suggests that family businesses are embedded in social relations that influence their activities.

Green (1996)

Introduction

In Chapter 1, it is argued that because analyses of governance in family business have mainly focused on the formal aspects of governance, these have failed to capture the influence of multiplexity in family business (Portes 1998). Thus, the study argues that it is necessary to bring back in ‘the social’ in order to adequately understand the process of how the dynamics of governance, both the formal and informal, influences governance in family firms, specifically family SMEs (see Chapter 1, p.52). This study adopts this focus. As a result, it forms a contribution to an emerging canon of literature that seeks to understand how the networks that family owners and managers occupy as a result of multiplexity influence governance in family business, and the ability of family firms to be able to achieve their economic and noneconomic goals.

To present this analysis, the study has drawn on social capital to inform the research focus of the study. The aim of this chapter is to review the literature that explains why the concept of social capital is most useful in unraveling the characteristics of relational governance in family firms. This discussion is contextualised by firstly reviewing what social capital is. The final section of this chapter discusses the application of a social capital perspective in business and family business studies as this contributes to the discussion in the next chapter on conceptualising the research focus, that is, how relational governance influences
family business and the ability of single family SMEs in Australia to achieve their economic and noneconomic goals.

**What Is Social Capital?**

Pierre Bourdieu developed the first systematic analysis of social capital. The first English translation of Pierre Bourdieu’s ‘The Sociology of Education’ (Bourdieu 1986). Table 1 summarises a range of descriptions of social capital in the literature. Social capital can be generally viewed as a concept that captures the nature and dynamics of relationships embedded in a social network (see e.g. Bourdieu 1986) or social structure (see e.g. Coleman 1988), which facilitates the actions of the individuals, who are interlinked by their social relations (see e.g. Coleman 1988; Lin 2001; Putnam 1995).

<table>
<thead>
<tr>
<th>Author</th>
<th>Social Capital is…</th>
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<tbody>
<tr>
<td>Bourdieu (1986, p. 248)</td>
<td>The aggregate of the actual or potential resources that are linked to possession of a durable network of more or less institutionalised relationships of mutual acquaintance or recognition.</td>
</tr>
<tr>
<td>Coleman (1988, p. 98; 1990, p. 302)</td>
<td>Any aspect of social structure that creates value and facilitates the actions of the individuals within that social structure; the whole set of social relations (e.g. personal acquaintances, goodwill etc.).</td>
</tr>
<tr>
<td>Putnam (1995, p. 67)</td>
<td>The features of social organisation, such as networks, norms and social trust that facilitate coordination and cooperation for mutual benefit.</td>
</tr>
<tr>
<td>Nahapiet &amp; Ghoshal (1998, p. 243)</td>
<td>The sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit.</td>
</tr>
<tr>
<td>Adler &amp; Kwon (2002, p. 23)</td>
<td>The goodwill available to individuals or groups. Its source lies in the structure and content of the actor’s social relations. Its effects flow from the information, influence, and solidarity that it makes available to the actor.</td>
</tr>
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**Table 1: Social Capital in Literature (Adler & Kwon 2002; Bourdieu 1986; Coleman 1988; Lin 2001; Nahapiet & Ghoshal 1998; Putnam 1995)**

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According to Portes (1998), Pierre Bourdieu first introduced the concept in some brief ‘Provisional Notes’ published in the *Actes de la Recherche en Sciences Sociales* in 1980. As this initial treatment of social capital was in French, the article did not garner widespread attention in the English-speaking world. The first English translation was later concealed in the pages of a text on Bourdieu’s ‘The Sociology of Education’ (Bourdieu 1986).
As Table 1 shows, social capital has a variety of attributes. Besides the social network aspect, Putnam (1995) and Nahapiet & Ghoshal (1998) argue that trust is a key element characterising social capital. As partnerships among individuals sharing the same network, trust plays a central role in shaping the closeness of social bonds among people. Hence, trust can be defined as ‘the confidence people will work for mutual gain’ (Cooke & Morgan 2000, p. 30). For instance, a successful marriage (especially if the family unit includes children) is positively associated with greater trust (Putnam 1995). A group within which there is extensive trust is able to accomplish more than one without trust (Coleman 1988, p. 101).

In this case, trust indicates the quality of social capital. As time passes, individuals develop trustworthiness, which refers to the obligations that will be repaid and the actual extent of obligations held by individuals sharing the same social relations (Coleman 1988). Metaphorically, such mutual benefit approximates a ‘favour bank’ in which individuals invest in trust when they are trustworthy (Lewis & Chamlee-Wright 2008). In other words, social capital creates a trust deposit that people can draw on when necessary. As a result, social networks between actors create ‘value’ for individuals and/or organisations, such as personal acquaintances and goodwill (Adler & Kwon 2002; Coleman 1988).

Hence, social capital can be considered as a ‘resource’ available to an individual or an organisation made up of individuals (Lin 2001; see Table 1, page 56). When used as a “resource”, social capital can lead to a broad range of outcomes at different levels. At the personal level, individuals can access their social relations to gain trust and reciprocity (see e.g. Coleman 1988). For communities, social capital influences the ability of community members to participate, cooperate, organise and interact with others (see e.g. Putnam 2000).

Social capital leads to macro level outcomes (Stone & Hughes 2002). For instance, in political settings such as government, or a legislator in a position with strong social relations and extra resources (for example, the Speaker of the House of Representatives or the Majority Leader of the Senate in the Congress of United

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26 Such as democratic polities; cited in Stone & Hughes (2002), Putnam (2000, p. 2) suggests ‘life is easier in a community blessed with a substantial stock of social capital’.
States) can effectively use their social capital as resources to build up a set of obligations from other legislators to get legislation passed that would otherwise by stymied (Coleman 1988). Thus, Coleman (1988, p. 103) states that:

‘The concentration of obligations constitutes social capital that is useful not only for this powerful legislator but useful also in getting an increased level of action on the part of a legislature’.

In addition, social capital can promote economic exchange and benefits for organisations that share trusting relationships based on strong social networks (Uzzi 1997). Trust embedded in previous historical economic transactions enable individuals to gain the ‘trustworthy’ status, which can create and reproduce economic opportunities and flexibilities in ways that are difficult to replicate and emulate using arm’s length ties (Uzzi 1997).

Besides trustworthiness, Coleman (1988) and Putnam (2000) identify norms as another element that characterises social capital. Norms are the informal rules and shared expectations that ‘groups establish to regulate the behaviour of their members’ (McShane, Olekalns & Travaglione 2010, p. 316). The basis of social capital is therefore social cohesion in groups and communities, and social relations in societies that express the underlying norms. Norms can ‘create positive or negative social and/or economic effects’ (Van Staveren & Knorringa 2007, p. 114). On the one hand, effective norms help strengthen social cohesiveness of groups or communities by encouraging members to act selflessly in the collective interest of others (Coleman 1988). On the other hand, strong social relations among people who share the same norm can run the risk of getting ‘locked in’ to their rules and behaviours; or in the business realm, the influence of norms may be to discourage innovation (Van Staveren & Knorringa 2007).

In summary, social capital facilitates ‘the ability of actors to secure benefits by virtue of membership in social networks’ (Portes 1998, p.6). Social capital is distinguished from organisational capital (corporate reputation, brand equity etc.) and human capital (education, training, skills of individuals etc.) based on its ‘ownership’ and ‘property rights’. Mutual benefit from social capital consists of social relations among people, which are characterised by trustworthiness and norms.
that in turn lead to reciprocation. While acknowledging social relations as the essence of social capital, it is the quality of the relationships that influences the outcome of mutual benefit (Putnam 1995, 2000). As a result, social capital can be strengthened through interaction; but social capital can also diminish if this interaction is not maintained (Nahapiet & Ghoshal 1998).

**The Dimensions of Social Capital**

Social capital has three dimensions: structural (the network connection between actors), cognitive (shared language and representations between actors yielding durable connections) and relational (the nature and the quality of the connections) (Nahapiet & Ghoshal 1998).

**Structural**

The structural dimension of social capital configures the overall pattern of connections between actors. In other words, “structure” represents the way social relation is patterned. According to Nahapiet & Ghoshal (1998), there are three facets of this social capital: network ties, network configuration and appropriable organisation. *Network ties* provide access to resources, and constitute a valuable source of informational-type benefits — the ‘who you know’ affects ‘what you know’ (Nahapiet & Ghoshal 1998). Network ties therefore constitute information channels that reduce the amount of time and investment required to gather information (Coleman 1988). Information gathered from network ties benefits individuals in three forms: access, timing and referrals (Burt 1992). According to Burt (1992), *access* is referred to as receiving a valuable piece of information and knowing who can use it. Network ties influence anticipation of value through such exchange (Nahapiet & Ghoshal 1998). For instance, individuals and families with large number of network ties may have expected access to a large stock of social capital, whereas those with few network ties may have little access or opportunity to invest in social capital (Stone & Hughes 2002). *Timing* is referred to as the ability of personal contacts to provide information sooner than it becomes available to people without such contacts. Hence, early access to information may critically affect firm performance, particularly in a business environment where speed to market is a crucial factor in determining success (Nahapiet & Ghoshal 1998). *Referrals* are the processes that provide information on available opportunities to
people or actors in the network. Referrals provide the opportunity to combine and exchange knowledge.

The second facet of structural social capital is network configuration, which is the structure of the networks, from which trust and reciprocity originate (Nahapiet & Ghoshal 1998; Stone & Hughes 2002). The size and the density of social ties characterise a network. A dense network is a network in which members know one another (Stone & Hughes 2002) and can lead to closure that distinguishes members (‘us’) from non-members (‘them’) (Bourdieu 1993). According to Coleman (1988), closure is the existence of a sufficient level of ties between members that makes the adherence of norms between members become highly likely. Coleman (1988) argues that a closed network tends to co-exist with effective norms and trustworthiness, and allows the proliferation of obligations and expectations; closure of social structure ‘creates trustworthiness in a social structure’ (Coleman 1988, p. 107). Thus, the possibility of opportunistic behaviour within a group with closure is minimised by ‘high density of ties among members and the accompanying threat of group sanctions against violators’ (Portes 1998, p. 6). However, a network that is not dense facilitates weaker network ties among people. Such a network is not necessarily ‘negative’, as people who are relatively unfamiliar with each other are not confined to the boundary that separates ‘us’ and ‘them’. Hence, weaker network ties can be sources of new knowledge and innovation (Coleman 1988; Portes 1998).

Finally, appropriable organisation represents the level of transferability of social capital. Examples include the development of personal relationships in business transactions (Coleman 1990) or the transfer of trust from family into work situations (Fukuyama 1995). These examples suggest that organisations created for one purpose can provide a source of valuable resources for other different purposes (Putnam 1995).

In summary, the structural dimension of social capital highlights the configuration of networks that characterises social relations among people. People can access resources and receive information through network ties. The structure of the network (network configuration) is characterised by its size and the density. A dense network with a configuration of strong network ties creates closure (Bourdieu
1993), but may discourage the creation of new knowledge (Coleman 1988; Portes 1998). In addition, appropriable organisation highlights the transferability of social capital from family or personal relationships to a firm’s operation (see e.g. Coleman 1990; Fukuyama 1995).

**Cognitive**
The second aspect of social capital is the cognitive dimension, which refers to the shared interpretations and language among individuals (Nahapiet & Ghoshal 1998) that provides a common channel to exchange information and knowledge. According to Nahapiet & Ghoshal (1998, p. 253), language has a direct and important function in social relations, as ‘it is the means by which people discuss and exchange information, ask questions and conduct business in society’. Thus, a common language shared by individuals facilitates their ability to gain access to other individuals and their information. Shared language, therefore, may provide ‘a common conceptual framework for evaluating the likely benefits of exchange’ (Nahapiet & Ghoshal 1998, p. 254).

Beyond the existence of shared language, others (see e.g. Orr 1990) argue that narratives such as stories also provide powerful means for creating, exchanging and preserving rich sets of meaning. According to Orr (1990), narratives in the form of stories not only facilitate the exchanging of practice and tacit experience between people, but also enable the discovery and development of improved practice.

**Relational**
Thirdly, the relational dimension of social capital refers to the nature and quality of connections among people. As the structural dimension of social capital indicates ‘who knows who’ within a network, the cognitive dimension highlights the common language and interpretations people use within the same network. The relational dimension of social capital specifies ‘how well a group of people know each other’. This embraces key facets such as identification, relational trust, obligation, and norms of reciprocity. Identification is the process whereby individuals see themselves as one with another person or group of people (Nahapiet & Ghoshal 1998, p. 256). According to Nahapiet & Ghoshal (1998), this may be as a result from membership in a group that people associate themselves with, or through the
group’s operation as a reference group. For instance, people may associate themselves with an organisational identity, which can be defined as ‘the set of beliefs between top managers and stakeholders about the central, enduring, and distinctive characteristics of an organisation’ (Scott & Lane 2000, p. 44). According to Arregle et al. (2007), organisational identity is often associated with the missions, values and practices of the firm. People sharing such identification enhance concern for collective processes and outcomes of exchanging knowledge, thus facilitating the anticipation of the value to be achieved through such exchange (Nahapiet & Ghoshal 1998).

*Relational trust* is referred to as trust based on the repeated interactions over time between a trustor and a trustee (Nooteboom 2002). ‘Trust’ can be understood as ‘the confidence that parties will work for mutual gain and refrain from opportunistic behaviour’ (Cooke and Morgan 2000, p. 30); ‘a type of expectation that alleviates the fear that one’s exchange partner will act opportunistically’ (Bradach and Eccles 1984, p. 104); ‘rational expectations of the behaviour of others’ (Dasgupta 1999, p. 330); or simply, ‘an outcome generated from relationships’ (Nooteboom 2002, p. 29). Different to trust per se, the concept of *relational trust* engages with that of *obligations*. Obligations represent a commitment or duty to undertake some activity in the future (Nahapiet & Ghoshal 1998). Obligations facilitate mutual expectations, which in turn can influence access to knowledge by people (Bourdieu 1986). When people from different organisations ‘rely on’ each other, this cooperation goes beyond contractual obligations, as they feel committed to not only the knowing activities (such as a project or a task), but a personal obligation to help others involved (Fairtlough 1994). In line with this view, individuals sharing a trusting relationship expect the obligations they fulfil will be repaid reciprocally (Coleman 1988), as they have developed a *trustworthiness* status among themselves. Hence, relational trust can be understood as trust based on the repeated interactions between people sharing the trusting relationships within the same social networks, on the basis of the obligations between individuals.

Finally, Lewis & Chamlee-Wright (2008) refer to *norms of reciprocity* as also influencing the functioning of relational trust. This can be described as ‘one good turn deserves another and that people should treat others as they themselves would like to be treated’ (Lewis & Chamlee-Wright 2008, p. 115). This type of
inter-personal relationship needs to be developed over time to facilitate knowledge creation and sharing, which results in gaining access to valuable knowledge networks and stimulates motivation for collaboration. Hence, norms of reciprocity shape mutual behaviours of the actors involved in trust relationships, and their beliefs regarding the intentions of others in their associated social ties and networks (Sitkin & Stickel 1996). As a result, a high level of trust among individuals generates cooperation. In other words, the historical trustworthiness of parties in previous interactions with others pre-determines cooperation (see e.g. Burt & Knez 1996; Rousseau et al. 1998), and in the longer term generates reputational effects within its social connections. Uzzi (1997, p. 43) suggests that people ‘may voluntarily exert extra efforts to enforce the norm of reciprocity’. These efforts can be referred to as ‘favours’, which can be used as an informal device to enforce voluntary reciprocation, as opposed to formal contracts. However, when there is inadequate trust between individuals, some control mechanisms such as a formal contract will ‘create the legal binding effect to minimise risk’ (Nooteboom 2002, p. 399).

Table 2 summarises these three dimensions of social capital (Nahapiet & Ghoshal 1998).

<table>
<thead>
<tr>
<th>Dimensions of Social Capital</th>
<th>Key Elements</th>
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</thead>
<tbody>
<tr>
<td>Structural</td>
<td>Network ties, network configuration, appropriable organisation</td>
</tr>
<tr>
<td>Cognitive</td>
<td>Shared language and narratives</td>
</tr>
<tr>
<td>Relational</td>
<td>Identification, relational trust, obligation, norms of reciprocity</td>
</tr>
</tbody>
</table>

Table 2: The Dimensions of Social Capital
(Source: Nahapiet & Ghoshal 1998)

In conclusion, as opposed to any other social theory, the study applies the concept of social capital to examine the research problematic, as it helps to unravel the complexity of relations in relational governance. Specifically, these concepts help to understand the ‘value’ created by social capital, which is based on the quality of an actor’s social relationships with others (Granovetter 1992; Moran 2005). In other
words, social capital assists in canvassing the *relational* aspect of family business governance. As discussed in the Introduction (see page 11), social capital also helps better understand the concept of performance in the family business context. That is, it is *not* financial performance of family firms that is being assessed in this study. Instead, the analysis focuses on the family firm’s ability to achieve their economic and noneconomic goals, given that the multiplexity that is associated with the *relations* that define family business operation. The next section presents a conceptualisation of how social capital can be applied in understanding family business studies.

**Social Capital in Business Studies and Family Business Studies**

The application of a social capital perspective in analysing firm performance has become more commonplace in business studies (see e.g. Adler & Kwon 2002; Burt 2000; Lin 2001; Moran 2005; Nahapiet & Ghoshal 1998). Research suggests that social capital plays an important role in influencing managerial performance (for example, sales, product innovation) (Moran 2005), reducing transaction costs and facilitating information flows, knowledge creation and accumulation (Burt 2000; Lin 2001; Nahapiet & Ghoshal 1998).

Overall, the concept of social capital provides a viable tool for research (Patulny & Svendsen 2007), particularly in understanding the configuration and quality of relationships (Moran 2005), and how social capital can be a source of organisational advantage (Adler & Kwon 2002; Nahapiet & Ghoshal 1998). Hence, using a social capital framework has advanced business research by focusing on the significance of *relationships* (Adler & Kwon 2002; Baker 1990; Burt 2000; Coleman 1988, 1990; Lin 2001; Moran 2005; Nahapiet & Ghoshal 1998). Specifically, social capital represents a distinct form of social relationship, which can be an outcome of investment strategies pursued either consciously or unconsciously (Bourdieu 1986). By investing in social capital, Bourdieu (1986) argues that individuals aim to produce advantages for themselves not only for current but also future benefits. In particular, the goodwill of others towards an individual creates ‘value’ that can be used to pursue economic ends (see e.g. Burt 1992, 1997, 2000; Coleman 1988, 1990) such as reducing transaction costs (Burt 2000), and developing firm strategy and resources (Nahapiet & Ghoshal 1998; Walker 1998).
Family Social Capital

The role of social capital in influencing family business has also been discussed in family studies. For example, Bubolz (2001, p 130) suggests that 'the family is a source, builder and user of social capital'. The relationships among family members create an 'ideal' environment in which to create social capital, such as trust and norms (Coleman 1988). For example, trust provides the foundation of moral behaviour of individuals, such as guidelines for cooperation, or principles of developing reciprocity and exchange (Bubolz 2001). An effective norm, such as teamwork and egalitarianism, may help to strengthen families by leading family members to act selflessly in the family's interest and developing synergy by balancing the interest between family and business. These norms should motivate the controlling family to be collaborative and successful (Lansberg 1999a). As family relationships continue, increasing interaction ideally produces greater levels of trust (based on shared norms or values), norms of reciprocity and exchange among family members (Arregle et al. 2007; Zahra 2010). This is because norms of reciprocity assist in shifting individuals from seeking self-interests to collective benefits (Adler & Kwon 2002).

As already discussed in this chapter (see page 60), a group with closure (structural social capital) tends to share strong norms and trust (relational social capital), which provides a boundary to the social relations among individuals (Coleman 1988; Nahapiet & Ghoshal 1998; Portes 1998). By developing and maintaining effective norms from trusting relationships between family members, family firms can therefore capitalise relational social capital by creating their familial social capital, or alternatively termed family social capital ('FSC') (Arregle et al. 2007), which results from the relationships and interactions among family members (Miller & Le Breton-Miller 2006; Zahra 2010). As family relationships continue, increasing interdependence and interactions produce greater levels of trust (based on shared
norms and values), principles of reciprocity (obligations) and exchange among family members (Arregle et al. 2007).

Over time, obligations create enduring network ties (Pearson, Carr & Shaw 2008). This metaphorically resembles a *favour bank*—in which individuals invest in trust when they are trustworthy (Lewis & Chamlee-Wright 2008). For instance, Bubolz (2001) suggests that grants (i.e. support without specific repayment plans) offered by parents to their children are exchanged with love and gratification, and with the implicit promise that children will reciprocate by caring for their ailing parents. As a result, members within the family develop stronger ties among themselves through available information, shared language and influence (Arregle et al. 2007), which in turn allows the family to operate more as a team and develop devotion, generosity and solidarity (Bourdieu 1993).

Understandably, enhancing the strength of family social capital (‘FSC’) increases the probability of the family’s survival and assists its members to prosper (Arregle et al. 2007). The personal dimension of FSC can be further explored by the concept of *familiness* as the idiosyncratic resources and capabilities resulting from the continuous interaction of family and business (Grant 1991; Habbershon & Williams 1999) (see Introduction, page 7). As discussed in the Introduction, *familiness* helps understand the debatable role of family involvement in developing a firm’s resources. For example, family members may selectively and discretely develop and exploit the relationships with their key stakeholders (clients, suppliers), and in turn create competitive advantages against competitors (Chang et al. 2008), or positively contribute to firm performance through transgenerational wealth creation, which is referred to as a continuous stream of wealth that spans generations (Habbershon & Pistrui 2002). The personalisation of authority in the firm allows the family to project its own vision onto the business (Chua, Chrisman & Sharma 1999), or alternatively referred to as the ‘family-in-business’ mindset (Habbershon, Williams & MacMillan 2003). This family-in-business mindset motivates the controlling family to take future generations into account when

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27 There is also an argument that it is not family per se but rather the owning group that services as the source of social capital (e.g. Matser 2012, p.25; Matser, Uhlanaer, Berent-Braun & Floren 2011). As an ownership group is a set of two or more business owners, ownership social capital can be seen as a type of group social capital. The term can be defined as the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by the business owners (Matser 2012).
making business decisions. In particular, the owning family perpetuates the family tie to the business from one generation to the next, with the outcome of achieving what Habbershon, Williams & MacMillan (2003) refer to as ‘multigenerational involvement’ in the business. In this scenario, family managers, especially founders, tend to closely identify with the firm, which includes other family owners and managers (Arregle et al. 2007). As members of the controlling family experience satisfaction from the ability to share, help and support other cherished family members in the process, this contributes to these members’ sense of identity (Handler 1989; Miller, Miller & Scholnick 2008).

Familiness can also be captured by the family’s dominant propensities of ‘personalism’ and ‘particularism’ (Carney 2005). According to Carney (2005), a family firm is characterised by personalism, when the unification of ownership and control concentrates and incorporates organisational authority in the hands of members of the controlling family. Family members as managers tend to operate the business under fewer constraints as they may exempt themselves from the internal bureaucratic constraints (such as human resource management practices) that can limit their managerial authority (Carney 2005). In addition, particularism follows from the personalisation of authority (personalism) (Carney 2005). By unifying ownership and control, the owner-manager can play a dominant role in personalising their authority to integrate their vision with the firm’s operation (Chua, Chrisman & Sharma 1999). In this scenario, the notion of particularism manifests itself when the family views the firm as ‘our business’ (Demestz & Lehn 1985).

Hence, when personalised authority is combined with the tendency of owner-managers viewing the firm as their own business, it generates advantages, relative to professional managers, in accumulating and using social capital (Carney 2005), specifically in forming and sustaining personal business contacts and networks (Miller, Steier & Le Breton-Miller 2003). This helps explain why the family in the family business is often sensitive to economic motives, as it contains particularism that unifies family members. By aligning the family’s personal authority to the business future, a family firm shapes its unique competitive advantage, which in turn motivates the controlling family to accumulate FSC, such as trust embedded in relationships (Carney 2005).
However, *particularism* does not necessarily contribute positively to firm performance. For example, Perrow (1972, pp 8-10) argues that:

‘particularism means that irrelevant criteria (e.g. only relatives of the boss have a chance at top positions), in contrast to universalistic criteria (competence is all that counts), are employed in choosing employees…efficiency is foregone if recruitment or access is decided on grounds that are not related to the members’ performance…the particularistic criteria are likely to be negatively related to performance – the more these particularistic criteria are used, the poorer the performance’.

*Familiness* may also lead family firms to focus excessively on wealth preservation and being incapable of identifying new opportunities to further develop their technologies (Chandler 1990). In other words, family control of enterprises can (potentially) be a liability on performance of the firm (Fukuyama 1995), as both non-empirical (e.g. Dyer 2006) and empirical evidence (O’Boyle Jr, Pollack & Rutherford 2012; Uhlaner et al. 2008) suggest that family involvement in business does not necessarily have a positive impact on firm performance.28

**FSC and Organisational Social Capital**

Despite the confusing and inconclusive findings in the literature to date about *familiness*, from a theory building perspective, *familiness* helps conceptualise FSC as the resources and capabilities that are derived from the involvement and interactions of family relationships, and those that originate from the intersection of the family and the business (Pearson, Carr & Shaw 2008). Pearson, Carr & Shaw (2008) have adapted the concept of *familiness* in accordance with the three dimensions of social capital identified by Nahapiet and Ghoshal (1998), that is, structural, cognitive and relational. The structural dimension of familiness is referred to as the social interactions, including ‘the patterns and strengths of ties, among the members of a collective’ (Pearson, Carr & Shaw 2008, p 957). The cognitive dimension of social capital comprises ‘the group’s shared vision and

purpose, as well as unique language, stories, and culture of a collective that are commonly understood, yet deeply embedded’ (Pearson, Carr & Shaw 2008, p. 957). It is the vision of the family firm that ‘endows the family enterprise with meaning—it conveys a profound explanation for why continuing the business is important to the family’ (Lansberg 1999b, p. 76). Consistent with Nahapiet and Ghoshal (1998)’s categorisation and interpretation of social capital, the relational dimension of familiness consists of the resources created through personal relationships, including trust and norms of reciprocity. These personal bonds create ‘unique and often lasting attachments among individuals in a collective group that influence behaviour, such as cooperation, communication, and commitment to a common purpose’ (Pearson, Carr & Shaw 2008, p. 958). As family members develop and maintain relationships both within and outside the firm, the personal dimension of social capital can be ‘transcended’ to the organisational level to create organisational social capital (‘OSC’), which is broadly defined as a resource reflecting the character of social relations within the organisation (Leana & Van Buren 1999, p. 538), including ‘the goodwill and resources that companies gain from their relationships with other companies’ (Zahra 2010, p. 345). This example can be captured by the concept of “appropriable organisation” (Nahapiet & Ghoshal 1998), which is referred to as the merger of FSC and OSC within the familiness context (Pearson, Carr & Shaw 2008).

While FSC plays an important role in influencing the functioning and maintenance of the firm, OSC results from a family firm’s interaction, communications and relationships with external stakeholders. It serves as a major relational capital that enables family firms to obtain resources from other firms (Arregle et al. 2007; Leana & Van Buren 1999). OSC fosters not only trust, but also associability, which is defined as the ‘degree of willingness and ability of participants in an organisation to subordinate individuals, goals and actions to collective goals and actions’ (Leana & Van Buren 1999, p. 541). In family firms, family governance practices could be viewed as a potential means to strengthen associability as the governance structure or mechanism helps facilitate the family’s relationships with the business and stimulate social interaction, which in turn helps form a shared vision and common norms of family firms. Associability tends to reflect motives closely associated with collective norms and goals, and owner commitment (Uhlaner, Floren & Geerlings 2007). In family firms, ownership commitment is referred to as
‘the degree to which owners as a group feel emotional attachments, involvement and identification to the firm they own’ (Vilaseca 2002 cited in Uhlaner, Floren & Geerlings 2007, p. 276). Specifically, ownership commitment assists family members in embedding their family involvement and identity in business operation. By connecting with other business stakeholders (such as clients, suppliers), family firms not only gain the knowledge necessary to stimulate new business opportunities, develop revenue streams that generate profits and growth, but also ‘safeguard against conservatism that threatens their survival’ (Zahra 2010, p. 346).

In addition, when family firms share strong norms (relational social capital) with their key stakeholders, the transactions tend to be based on trustworthiness, without the need for cumbersome legal contracts (Coleman 1988).

Thus, FSC can be a driver to develop OSC (Arrgele et al. 2007). For instance, frequent interactions among family members affect the firm’s strategy formulation (Mustakallio, Autio & Zahra 2002). Family firms can use family institutions (such as a family meeting) to influence the level of social interactions regarding business issues aimed at aligning family members’ common interests with the shared vision of the firm’s operation (Mustakallio, Autio & Zahra 2002). As the family’s interest is directly linked to firm performance, family relationships based on trust and reciprocity therefore unify family members by instilling a cooperative spirit among members, and in turn contribute to the survival and prosperity of the controlling family (Arregle et al. 2007). Family firms can therefore capitalise on strong social capital by developing more powerful social bonds among family members, rather than using formal rules, policies and transactional agreement to regulate management behaviour (Leana & Van Buren 1999).

In addition, the multiple roles of family, ownerships and business in the firm contribute to positive multiplexity, which is referred to as the overlap between two social networks with the same people linked together across different roles (Portes 1998). According to Coleman (1990) and Portes (1998), multiplexity allows an intense community life and strong enforcement of norms, higher levels of obligation and trust-based norms in both family and firm. Hence, the family firm’s OSC is strengthened and benefits from this multiplexity.
Family members also interact with external stakeholders (such as customers, suppliers, bankers), which in turn can contribute to the development of OSC. For instance, the influence of guanxi (personal connection) in Chinese family firms tends to be associated with strong interactions with their clients and suppliers (see e.g. Yeung 2000b) and exchange of social obligation by asking and giving favours (Chen & Chen 2004; Park & Luo 2001). Specifically, Park & Luo (2001) argue that Chinese firms can circumvent bureaucratic hurdles through personal connections with government officials. Guanxi also assists firms in securing scarce resources and business information by accessing managerial personal ties with executives at other firms (such as suppliers, buyers) (Peng & Luo 2001). Similarly, family firms can use their OSC to gain knowledge to create new businesses that generate profits and growth (Zahra 2010). Hence, OSC is actively developed by increased strength in FSC ‘originating in part from family members’ internal and external interactions with stakeholders’ (Arregle et al. 2007, p. 83).

However, given FSC’s influence on the development of the family firm’s OSC, strong FSC can potentially have a negative impact on OSC. For instance, strong FSC potentially nurtures an overly strong OSC (Arregle et al. 2007), which could be an impediment to innovation as people become embedded in established practices (Leana & Van Buren 1999). A family firm that heavily depends on FSC could undermine its OSC, as a strong family may inappropriately capture the goodwill intended for the firm by external non-family members and in turn opportunism among family members may flourish (Arregle et al. 2007). Potential dissension can occur between family and non-family employees, as the latter may feel outcasts and resent the family, thereby reducing the benefits for the firm based on FSC (Arregle et al. 2007, p. 88).

**Social Capital in Analysis of Family Business Governance**

The research focus of the present study is to examine how relational governance as an informal level of social control influences family business and the ability of single-family SMEs in Australia to be able to achieve their economic and noneconomic goals. As discussed in the Introduction (see pages 4-12), family involvement in the ownership and management processes of the business

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29 See also the Abstract of the thesis.
distinguishes family from non-family firms. The multiple roles (family, ownership and business) played by a controlling family can potentially create the tension in aligning the family's personal goals with the business imperatives, which the owners of the business should ideally pursue (see e.g. Jensen & Meckling 1992; La Porta et al. 1998; Shleifer & Vishny 1997). It is however the lack of an effective governance structure that creates these tensions or managerial constraints (Gomez-Mejia, Numez-Nickel & Gutierrez 2001; Schulze et al. 2001).

As also argued in Chapter 1, despite the calls for changes in professionalising family business governance, the reality is that most Australian family SMEs lack formal governance (Glassop, Hagel & Waddell 2007, 2008; KPMG Family Business Survey 2011; 2013; Moores 2009; Smyrnios & Dana 2010). Nonetheless, Australian family businesses have outperformed non-family firms in weathering the Global Financial Crisis (GFC) (Moores 2009), mainly because family businesses can capitalise the controlling family's commitment to the business, and effectively align the family's vested interest in the business. As a result, family businesses are able to be more responsive to market conditions, thus being able to consistently and productively deliver superior service and products to their customers (KPMG Family Business Survey 2013, p.11). While highlighting the multiplexity of family business, this noteworthy example supports the view that using a formal governance perspective is insufficient to capture the complexity of family business governance. Instead, the study focus is to understand how the relational governance influences family business and the ability of family firms to achieve their economic and noneconomic goals. The relational governance framework will be further discussed in the next chapter.

Conclusion
At the centre of this chapter is a theoretical review of the concept of social capital canvassing key interpretations of 'what is social capital' and the facets that have been identified as comprising social capital, and how these can be applied to understanding family business studies. This chapter concludes that the concept of social capital is most useful in unravelling the functioning of relational governance in family firms (i.e. the characteristics of each dimension of social capital and how these social capitals relate to each other in the context of family business.
governance). The next chapter discusses the relational governance model upon which the present study is grounded. The model begins with that proposed by Mustakallio, Autio & Zahra (2002), but then ‘goes beyond’ these authors to conceptualise the problematic of governance in family business.
CHAPTER 3

Conceptualising

Family Business Governance

Governance of family firms differs from mainstream corporate governance in an important aspect: Important owners, i.e. family members, may have multiple roles in the business...In family businesses, social or relational governance mechanisms are usually strong and long lasting.


Like other companies, family firms are embedded in their environment, making it possible for them to develop social capital that leads to competitive advantage.


Introduction

While there is a body of literature that recognises the significance of relations in understanding the approach to governance adopted by family business, Chapters 1 and 2 argue that the social theories used in current analyses are still unable to understand the process of relational governance. Chapter 2 presents aspects from social capital to help develop this understanding. The aim of this chapter is to discuss how these have guided the development of the conceptualisation for the study in understanding the influence of relational governance on family business and the ability of family firms to achieve their economic and noneconomic goals.

To present this discussion, the chapter begins with describing the relational governance model developed by Mustakallio, Autio & Zahra (2002), and how this study has extended this model by using a social capital perspective to conceptualise and elaborate further on the configuration and process of relational governance, that is, clarifying ‘how the relational governance model works’. This refers to the characteristics and interrelationships of structural and cognitive social capitals, and expanding the original meaning of ‘family size’ by creating the term ‘family management unit’. Compared to ‘family size’, ‘family management unit’ refers to
those family members who play multiple roles of ownership and management in making strategic and operational decisions of a family firm, and how these family members can be influenced by their network ties (which provide access to resources) and network configuration (i.e. the structure of the networks).\(^{30}\)

In addition, Mustakallio, Autio & Zahra (2002, p. 220) state that:

‘Future studies should do more work to explain the distinctive governance challenges of family business as well as strive to highlight social governance mechanisms that may be distinctive for these. Most of the received studies on family firm governance tend to be descriptive or normative in character, and family business governance still lacks a coherent underlying theoretical framework. Constructing such a framework presents a challenge for researchers.’

In response, this study has further adapted the conceptualisation of relational governance by incorporating a discussion about how the social, political and economic aspects within a firm’s environment influence a family firm’s approach to governance, as no business is immune from the influences within its environment. The study has drawn on the concept of mixed embeddedness (Kloosterman, Van der Leun & Rath 1999) to present this discussion. This discussion in turn becomes one of the original contributions of the study, as applying the concept of mixed embeddedness to the research focus of the study helps broaden understanding of the intersection of ‘contexts’ with family business governance, and how it influences the ability of family firms to achieve their economic and noneconomic goals.

**Relational Governance of Family Firms**

Relational governance is an informal level of social control that is linked to the social relations between family members in a firm (James 1999; Mustakallio, Autio & Zahra 2002; Uhlaner, Floren & Geerlings 2007). This form of governance is based on the creation and usage of social capital embedded in social relationships among family owners and managers (Granovetter 1985). It is in part shaped by the *multiplexity* associated with family firms, as the owner-family’s members are usually

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\(^{30}\) See discussion in Chapter 2, pp.59-60.
responsible for managing (e.g. making strategic business decisions (Gallo & Sveen 1991) and governing the firm (Tagiuri & Davis 1996). Hence, family firms need a governance structure that matches their uniqueness and complexity of management.

Mustakallio, Autio & Zahra (2002) developed a theoretical model to capture relational governance, as they argued that besides formal governance and control (such as a board), family business governance should be viewed as ‘reflecting the implementation of social control that promotes social interaction and the formation of shared vision among the various stakeholders’ (Mustakallio, Autio & Zahra 2002, p 205). Drawing on the concept of social capital, the relational governance model explains the interplay between the structural (e.g. social interaction) and the cognitive (shared vision) dimensions of social capital. It suggests that social interactions among owner-family members contribute to the creation of a shared vision, which can improve ‘the quality of the firm’s strategic decision-making process and top managers’ commitment to the successful execution of these strategies’ (Mustakallio, Autio & Zahra 2002, p 206). Thus, relational governance enables family members to develop a shared identity and vision about how the firm should operate.

The present study adapts (partially) and expands the relational governance model developed by Mustakallio, Autio & Zahra (2002). This study adapts the model because it theoretically captures the informal, social aspect of governance practice of family firms from a relationship-based perspective and identifies the major components of relational governance. The model also provides a framework for researchers to conduct systematic empirical study about relational governance. However, the study expands the relational governance model by conceptualising the characteristics and configurations of structural and cognitive social capitals associated with relational governance. This is largely because Mustakallio, Autio & Zahra (2002) have not provided any other research to empirically test and further elaborate on key concepts of their model since their inaugural publication in 2002. This opens up an opportunity for other researchers to explore the relational governance model in more detail and develop an understanding of how relational governance works in family firms. To present this discussion, the next section begins with describing the dimensions of social capital of family firms, their
theoretical explanations to relational governance and applicability to the present study.

**Adapting and Expanding the Relational Governance Model**

In developing the relational governance model, Mustkallio, Autio & Zahra (2002) has drawn on the work of Nahapiet & Ghoshal (1998) to argue that structural social capital (e.g. network ties and social interaction between and among family members) creates cognitive social capital (e.g. a shared vision and language about the firm’s future among family members). These dimensions of social capital theoretically inform family social capital (FSC) and relational governance of a family firm. The next section first discusses the structural social capital of family firm.

**Structural Social Capital of Family Firm**

As discussed in the previous chapters, the structural dimension of social capital (structural social capital) configures the overall pattern of connections between actors. Structural social capital consists of three facets: network ties, network configuration and appropriable organisation (Nahapiet & Ghoshal 1998). As per the Mustakallio, Autio & Zahra (2002)’s relational governance model, the means by which these dimensions develop in family business include ‘family institutions’ and ‘family size’. No definition of ‘family size’ was provided other than to suggest that ‘as the owner-family grows larger, natural occasions for interaction diminish’ (Mustakallio, Autio & Zahra 2002, p 208), due to different places family members may live in. In this context, one interpretation of ‘family size’ is the number of family members within the owner-family, including family owners (and possibly family managers also).

As per the Mustakallio, Autio & Zahra (2002)’s relational governance model, family institutions and family size nourish the levels of social interaction between members of the controlling family. This social interaction then influences the development of the cognitive dimension of social capital; that is, social interaction is considered the central element that ‘bridges’ other structural (family institutions, family size) and cognitive dimensions. Specifically, family members need platforms
to facilitate their regular contacts and discussion about family and business matters. The concept of family institutions is further discussed in the next section.

**Family Institutions**

The term ‘family institution’ in the relational governance model (Mustakallio, Autio & Zahra 2002) includes ‘informal get-togethers, formal family meetings, family councils’, which can develop family plans that represent and integrate the needs and interests of the owner-family members (Mustakallio, Autio & Zahra 2002, p. 208). According to these authors, family members working in the family firm generally have more frequent social interactions outside of work (such as family gathering) than managers and employees in non-family firms. This scenario once again highlights the uniqueness of family business, that is, the boundaries between work and family social relationships and events are blurred (Arregle et al. 2007; Moores 2009), as family members organise informal family meetings (one type of family institutions) not only for the discussion of family but also business-related matters.

Hence, having family institutions enables members of the controlling family to effectively negotiate and discuss the influence of family and business issues on the business operations, and arrive at specific decisions related to firm operations and performance that also complement family members' interests (Magretta 1998). In other words, family institutions are considered as those social occasions ‘that are intended to facilitate the family’s links with ownership and business’ (Mustakallio, Autio & Zahra 2002, p. 208). By using ideas from social capital, family institutions also provide a ‘communication platform’ for members of the family to exchange information, which can possibly benefit individuals in access, timing and referrals (Burt 1992). That is, members of the controlling family can access and share valuable information through family institutions, such as informal or formal family meetings. Through these social occasions, members of the controlling family can enjoy a timing advantage as they are able to access the information sooner than those without the contacts. Briefly, family institutions facilitate the relational

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31 As previously mentioned in Chapter 1 (p. 32), family council can be the forum for discussing important family business issues, communicating family policy on business issues that may impact family members.
governance process by providing a forum for members of the controlling family to provide information to family members in the network. Family institutions thus allow these members to enjoy referral benefits.\textsuperscript{32}

Family institutions are therefore the structures that facilitate the family’s relationships with the business (Aronoff & Ward 2002; Gersick et al. 1997; Mustakallio, Autio & Zahra 2002; Neubauer & Lank 1998). Family institutions stimulate social interaction and subsequently increase the likelihood that the business-owning family could create a shared vision or common norms to govern the behaviour of family managers and/or owners of the firm. Hence, family institutions can be regarded as team building tools that ‘not only enhance the effectiveness of the business-owning family, but also the business it owns’ (Berent-Braun & Uhlaneq 2012, p 104).

\textit{Size of the Family Management Unit}

Mustakallio, Autio & Zahra (2002) argue that analysing the ‘size of family’, or family size, is significant in unravelling the levels of social interaction that in turn influence governance and performance of family firms (Mustakallio, Autio & Zahra 2002). However, as discussed, they only implicitly suggest that ‘family size’ is based on the numbers of family members who occupy multiple family and business roles in the family business. As a result, ‘if the amount of multiple roles in family firms decreases, then we should see less social interaction among family members’ (Mustakallio, Autio & Zahra 2002, p. 208). However, they do not discuss the nature of these multiple roles or specify the type of decision family members may be involved, who makes these decisions, and the relationships between these family members.

This study therefore has not drawn on the same understanding of the terms ‘family size’ and ‘the owner-family’, and the related hypotheses originating in the relational

\textsuperscript{32}In Chapter 2 (pp. 59-60), referrals are referred to as the processes that provide information on available opportunities to people or actors in the network. Referrals provide the opportunity to combine and exchange knowledge.
governance model. Using ideas from social capital, it is instead suggested that the term ‘family management unit’ refers to family members who are linked by network ties that are embedded in family relationships and who play the roles of owners and/or managers, and are therefore responsible for making strategic and operational decisions of a family firm. That is, the family management unit represents the structure that is particularly denoted by network ties (e.g. constitute informal channels; provide access to resources) and network configuration (the structure of the networks characterised by size and density; from which trust and reciprocity originate) (Nahapiet & Ghoshal 1998; Stone & Hughes 2002). The term ‘size of the family management unit’ is therefore used to indicate the number of family owners and/or managers who are influenced by their network ties and network configuration in making strategic and operational decisions of a family firm.

The function of network ties in family business can be further captured by the concept of ‘bonding social capital’, which is referred to as ‘inward’ or ‘intra-community’ network linkages that create the ‘super-glue’ among actors sharing social ties (Lee 2009; Portes & Sensenbrenner 1993; Svendsen & Svendsen 2003; Woolcock 1998). It is suggested that a bonding relationship exists when actors share strong ties based on the same social identity such as organisational culture, family and kinship (Granovetter 1985). As discussed in Chapter 1 (see pages 51-52), social identity theory helps understand the social categorisation of individuals (e.g. organisational membership) (Tajfel & Turner 1985) and how this understanding enables the individual to locate or define oneself in the social environment. In the context of family firms, social identity theory can provide one explanation for owner commitment in family-owned firms. That is, commitment to a particular group or organisation may be driven ‘as much by affiliation needs with the in-group (or group to which an individual belongs)—than it is by altruistic motives…social identity theory thus provides a rationale for the family to serve as a positive influence on owner commitment and feel their belongingness to an

33 These hypotheses are:
Hypothesis 1: The greater the variety of family institutions, the higher the level of social interaction among the owner-family members.
Hypothesis 2: The bigger the owner-family of the family firm, the lower the level of social interaction among the family members.

34 See discussion in Chapter 2, pp.59-60.
in-group (the family), and to act accordingly’ (Uhlaner, Floren & Geerlings 2007, p.279). As these individuals communicate frequently, they establish their roles through the family networks.

In conclusion, by creating and defining the term ‘family management unit’ and ‘size of the family management unit’, this study therefore expands the original interpretation provided by Mustakallio, Autio & Zahra (2002) by specifying: first, that the family management unit comprises members who play the owner’s and/or manager’s role in making strategic and operational decisions of a family firm, and how family owners and/or managers can be influenced by their network ties and network configuration; second, size of family management unit indicates the number of family owners and/or managers who are involved in making important strategic and operational decisions of a family firm.

Social Interaction

According to Nahapiet & Ghoshal (1998), it is self-evident that social relationships are strengthened through interaction. Social interaction can be referred to as individuals who engage in exchanging knowledge and participating in activities they know collectively (Mustakallio, Autio & Zahra 2002; Nahapiet & Ghoshal 1998). The concept is grounded in a sociological perspective, in which interaction is a precondition for the development and maintenance of dense social capital35 (Bourdieu 1986), or alternatively closure in a group.36

In family business, the level of social interaction refers to ‘the closeness of social relations among family members, and the familiarity among family members on a personal (and kinship) level’ (Mustakallio, Autio & Zahra 2002, p. 208). Frequent interactions among family members may affect the family firm’s strategy and formulation, as they meet in both formal and informal settings to discuss family and/or business-related matters (Nordqvist & Melin 2001). However, social interaction in family firms is also influenced by the interplay between family and business or multiplexity, which is referred to as two social networks (the family and

35 Dense social capital is defined as a network in which members know one another (Stone & Hughes 2002).

36 As explained in Chapter 2 (p. 60), closure in a group is defined as the existence of a sufficient level of ties between members such that the adherence of norms between members is highly likely.
the firm) that are overlapping with the same people linked together across different roles (Portes 1998). Multiplexity leads to an intense community life and strong enforcement of norms (e.g. trust-based norms) that foster higher level of obligation in the two social groups (family and firm) (Coleman 1990; Portes 1998). Multiplexity also defines the interaction among members of the family management unit.

Thus, social interaction plays an important role in facilitating the social relations between and/or among family members, and the opportunity to discuss business (and family) issues. Family institutions facilitate these opportunities for family members to discuss any family and business-related matters.

Over time, levels of social interaction not only facilitate network ties among family members, but also generate the ‘glue’ (or bonding social capital) that can tie family members both horizontally and vertically across generations (Mustakallio, Autio & Zahra 2002). A close network tends to develop and co-exist with effective norms that create a proliferation of obligations and expectations. Social interaction also fosters trustworthiness in a social structure (Coleman 1988, p. 107). Hence, increasing interaction based on ongoing family relationships produces greater levels of trust (based on shared values) and norms of reciprocity among family members (Arregle et al. 2007; Zahra 2010). By developing and maintaining the effective norms that develop from trusting relationships between family members, family firms can capitalise on relational social capital (i.e. trust, norms of reciprocity) and develop FSC (Miller & Le Breton-Miller 2006; Zahra 2010).

To conclude, while similar to the relational governance model, the study has elaborated on the concepts of structural social capital associated with relational governance. The concept of ‘family size’ as used by Mustakallio, Autio & Zahra (2002) has been expanded in this study to refer to the ‘size of the family management unit’, which refers to family members taking the owners’ and/or managers’ roles in making strategic and operational decisions for a family firm. Hence, within structural social capital, two elements, including family institutions

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37 As explained in Chapter 2 (p. 57), trustworthiness refers to the obligations that will be repaid and the actual extent of obligations held by individuals sharing the same social relations, implying a reciprocal nature of trust relations (Coleman 1988).
and size of the family management unit, contribute to the levels of social interactions among members of the controlling family. While being an outcome of family institutions and the size of the family management unit, social interaction can also be considered as an antecedent of a shared vision among family members about economic and noneconomic goals (The relationship between social interaction and a shared vision is further discussed on pages 85-89 of this chapter).

Hence:

**Proposition 1 (P1):** there is a relationship between the variety of family institutions that help to facilitate the level of social interaction among members of the family management unit (For example, the greater the use of different family institutions such as informal/formal family meetings, the higher the level of social interaction).

Social interaction facilitates family involvement in the business, which can be varied by the actual number of family members involved in the firm’s ownership and/or management. For instance, as the owning family grows larger, natural occasions for social interactions (such as family gatherings) diminish because family members may live in different places with minimal personal encounters and meetings (Mustakallio, Autio & Zahra 2002). These authors confirm that family size (and in this study, the size of the family management unit) is negatively associated with social interaction among family members. In other words, the larger the family management unit, the lower the level of social interaction among family members (as owners and/or managers of the family firm); and conversely the smaller the family management unit, the higher the level of social interaction among family members.

As size of the family management unit impacts on the level of social interaction, this poses a challenge in formulating effective governance responses. This is because when the controlling family becomes larger, occasions for social interaction are reduced (Gersick et al. 1997; Mustakallio, Autio & Zahra 2002). As a result, the social ties between family branches become weaker than within the branches. This can subsequently affect the level of participation of the controlling family in business decisions (Mustakallio, Autio & Zahra 2002).
Hence:

*Proposition 2 (‘P2’):* There is a relationship between the size of the family management unit and the level of social interaction among family members.

The structural dimension of social capital is shown in Figure 2. This highlights the interrelatedness of family institutions, size of the family management unit and the level of social interaction. This then constitutes the structural dimension of relational governance.

![Figure 2: The Structural Dimension of Relational Governance](image)

Besides structural social capital, family firms also create cognitive social capital to reflect their shared view about the business future and the goals members of the family management unit intend to achieve. In other words, this is the family’s vision, which assists in explaining why continuing the business is critical for the family interest (Lansberg 1999b). The next section discusses the nature of this social capital within the family firm’s context.

**Cognitive Social Capital of Family Firm**

The cognitive social capital of family business is referred to as the development of shared interpretations and language. These are significant for a direct and important function in social relations (Nahapiet & Ghoshal 1998). Shared language provides ‘a common framework for evaluating the likely benefits of exchange and combination’ (Nahapiet & Ghoshal 1998, p. 254). This evaluation can provide a
shared interpretation stemming from the family’s ‘story’ about business practices (Orr 1990).

Cognitive social capital therefore represents family values that encapsulate the collective thoughts of family members about ‘what their firms stand for’. The personalisation of authority in the firm, or personalism, enables the controlling family to project its own vision onto the business (Chua, Chrisman & Sharma 1999), which is alternatively referred to as the ‘family-in-business’ mindset (Habbershon, Williams & MacMillan 2003), and eventually motivate the family viewing the firm as ‘our business’, or alternatively be known as ‘particularism’ (Carney 2005; Demestz & Lehn 1985). It is this ‘family-in-business’ mindset which motivates the controlling family to consider future generations when making business decisions (Habbershon, Williams & MacMillan 2003). On a positive side, by aligning the family's personal authority to the business future, a family firm shapes its unique competitive advantage, motivating the controlling family to accumulate FSC, such as trust embedded in relationships (Carney 2005). However, particularism does not necessarily contribute to firm performance, especially if the ‘family-in-business’ mindset based on the personalisation of authority does not effectively translate to a shared vision among members of the controlling family. For example, employment criteria based on the controlling family's favouritism criteria rather than the universalistic criteria (competence is all that counts) are likely to constrain the ability of the family firm’s to perform, and consequently contribute to poor performance (Perrow 1972).

Over time, family members often perceive themselves as sharing a common family responsibility for the firm (Cabrera-Suarez, De Saa-Perez & Garcia-Almeida 2001), thereby displaying more commitment to their relationships (Lyman 1991) and enthusiasm towards their work (Ward 1988, 1997). In family firms particularly, the shared values among individuals are critical in ‘formulating a shared organisational vision or framework about the desired business domains, anticipated growth rates, and financial performance of the firm’ (Mustakallio, Autio & Zahra 2002, p. 208). Consequently, it is the family values, mission and vision that become the core of an

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38 See discussion in Chapter 2, p. 67.
39 See discussion in Chapter 2, p.68.
organisation’s identity as these aspects support meaning, connection and purpose of the people in the organisation (Woods 2008, p.70).

From a governance perspective, establishing this shared vision is therefore essential to a firm’s long-term development, as it guides owners and managers in resource-allocation and strategic decisions on the economic (business) and noneconomic (family) goals a family firm intends to achieve. A strategic decision is defined as ‘a choice with important consequences and resource demands for the organisation’ (Nutt 1998, p. 198). Firm performance and survival are contingent upon the quality of and commitment to strategic decisions (Dooley & Fryxell 1999). Decision quality can be referred to as the extent to which a decision contributes to the achievement of organisational goals. Decision commitment indicates the extent to which team members accept and commit to the strategic decisions reached (Korsgaard, Schweiger & Sapienza 1995). Collectively decision quality and decision commitment indicate ‘decision-making quality’ (Mustakallio, Autio & Zahra 2002). Economic goals are generally associated with a business and linked to the concept of return on investment. However, it is argued that the distinctiveness of family business is to also achieve noneconomic goals including family harmony, transgenerational transfer of funds and socioemotional wealth, which refers to ‘the non-financial aspects of the firm that meet the family's affective needs, such as identity, the ability to exercise family influence and the perpetuation of the family dynasty’ (Gomez-Mejia, Haynes, Nunez-Nickel, Jacobson and Moyano-Fuentes 2007).

Ideally, a shared vision aligns family goals (such as creating wealth for the family) with business objectives (such as business growth), reinforces the closeness of family relations (James 1999b), and may influence the ability of family firms to meet their economic and noneconomic goals. Positive family relations and reciprocal involvement often lead to a shared vision, which fosters the firm’s long-term value creation, including ‘maximising wealth for family members of current and next generations’ (Habbershon, Williams & MacMillan 2003, p. 457). Consequently, family business owners tend to utilise the firm’s resources efficiently and effectively. As time passes, a shared vision based on the founder’s beliefs and values portrays the family firm, which arguably ‘makes greater commitments to their missions, has more of a capacity for self-analysis, and less managerial politics’
This shared vision in turn increases the willingness and ability of an organisation’s members to subordinate their individual goals and actions to collective interests (Ring & Van de Ven 1994). For external business stakeholders, a shared vision among decision makers serves as a sign of cohesiveness and cooperation with respect to realising their collective ownership-related goals (Mustakallio, Autio & Zahra 2002). The process of creating a shared vision is significantly related to levels of social interaction in creating a shared vision in family business (see e.g. Cabrera-Suarez, De Saa-Perez & Garcia-Almeida 2001; Ward 1997). That is, frequent interactions provide the opportunity for family members to create a shared vision about the firm’s business future (Habbershon & Astrachan 1997). Mustakallio, Autio & Zahra (2002) further confirm that the strength of a shared vision among family members is positively associated with levels of social interaction and strategic decision quality and commitment. More importantly, members of the family management unit play a key role in determining a family firm’s operation, as their multiple role responsibilities (i.e. occupying the roles of owners and managers) are typically long-term in nature (Mustakallio, Autio & Zahra 2002). Thus, the extent to which people accept and commit to the strategic decisions will be critical to achieving the firm’s long-term blueprints. This, in the family firm’s context, is to an extent reflected on ownership commitment,41 which epitomises the embedded family involvement and identity in business operation.

Briefly, a shared vision serves as a conceptual ‘roadmap’ that outlines the family members’ collective ideas about the future of the firm and strategies to help achieve their economic and noneconomic goals. By defining family purpose, mission and values, a shared vision becomes the most important practice to ensure long-term family business growth (Ward 1997). In return, social interaction among members of the family management unit emerges as an important process in the formation of a shared vision of the family firm’s missions and goals, and the economic (business) and noneconomic (family) goals that family members intend to achieve.

40 See pages 9-11 for the discussion of ideal vs. actual family business.
41 In Chapter 2 (see p. 70), ownership commitment is referred to as the degree to which owners as a group feel emotional attachments, involvement and identification to the firm they own (Vilaseca 2002 cited in Uhlaner, Floren & Geerlings 2007, p. 276).
Hence:

**Proposition 3 (P3):** There is a relationship between the level of social interaction and the level of shared vision among members of the family management unit.

The relationship between social interaction (structural social capital) and shared vision (cognitive social capital) as applied in this study is shown in Figure 3.

![Diagram: Level of Social Interaction Relating to Level of Shared Vision](image)

**Figure 3: Level of Social Interaction Relating to Level of Shared Vision**

In summary, the first part of the conceptual model that guides the present study (see Figure 4) embraces the relational governance model (Mustakallio, Autio & Zahra 2002). This study has also extended this discussion in relation to concepts such as family institution, size of the family management unit, social interaction and shared vision. Using a social capital perspective, the discussion provides a more detailed interpretation of the characteristics and interrelationships of these concepts. Compared to the term ‘family size’ used in the relational governance model (Mustakallio, Autio & Zahra 2002), the study has created the terms ‘the family management unit’ and ‘size of the family management unit’ to indicate ‘who’ and ‘how many’ family owners and/or managers are linked by network ties and are involved in making strategic and operational decisions of a family firm.
While adapting and expanding the relational governance model (Mustakallio, Autio & Zahra 2002), the present study accepts their findings about the significance of a shared vision in influencing decision making of family firms, as the goal of the family management unit (structural social capital) is to shape a shared vision (cognitive social capital) about the firm's business practices and strategies (Chrisman, Chua & Litz 2004; Habbershon 2006). However, it is argued that the relational governance model has its own limitations when explaining the nature of family business governance. This is discussed in the next section.

Limitations of the Relational Governance Model

The relational governance model (Mustakallio, Autio & Zahra 2002) provides a framework to conceptualise the social dynamics of family business in management and control, but remains inadequate in explaining how family business governance, both formal and informal (i.e. relational governance), influences the ability of family firms to be able to achieve their economic and noneconomic goals. Despite acknowledging the significance of a shared vision in improving ‘the quality of the firm’s strategic decision-making process and top managers’ commitment to the

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42 In this thesis, family business governance is defined as an organisation of management, supervisory, ownership and family in a family business, with the goals being to create value and accountability over successive generations (Ward 1997; Neubauer & Lank 1998) (see pp.12-13, Introduction).

43 Mustakallio, Autio & Zahra (2002) do acknowledge that their theoretical framework and the associated findings only represent a first step towards the research direction of understanding relational governance in family business.
successful execution of these strategies’ (Mustakallio, Autio & Zahra 2002, p.206),
this study argues that it is in fact not only a shared vision, but relational governance as a process that influences the ability of family firms to be able to achieve their intended (economic and noneconomic) goals.

As family governance practices provide the structures or mechanisms intended to facilitate the family’s relationships with the business (Gersick et al. 1997; Mustakallio, Autio & Zahra 2002; Neubauer & Lank 1998), understanding relational governance as a process is important to help explain the ongoing interaction between ‘family’ and the ‘business’ of family firms as a social system. In particular, examining the process of ‘how relational governance works’ assists in understanding how the controlling family governs the family firm through relationships and other family social capitals, particularly the role of family involvement in influencing family business governance.

As discussed in the Introduction of this thesis, family involvement in business does not by default have a positive influence on firm performance (e.g. O’Boyle Jr, Pollack & Rutherford 2012; Uhlner et al. 2008), as it has the potential of reducing or enhancing conflicts caused by the tensions between the family and the business. Ideally, ongoing social interactions among members of the family management unit through a variety of family institutions (such as informal and formal family meetings) can help the controlling family to create the shared vision, which reflects not only the family’s values and goals, but also their collective view of the intended economic and noneconomic outcomes a family firm aims to achieve. This governance process in turn allows family owners and/or managers to exploit the firm’s resources and capabilities, make requisite strategic choices and pursue future opportunities (Habbershon, Williams & MacMillan 2003), or form agreeable norms to govern the behaviours of family members in the firm (Berent-Braun & Uhlner 2012). It is also the multiplexity in family firms that strengthens the bond between

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44 As already discussed in pages 76-90 of this chapter, relational governance captures the interplay between structural (i.e. family institutions, size of family management unit, social interaction) and cognitive social capital (i.e. shared vision).

45 As discussed on page 41 of this thesis, family firm is conceptualised as a social system, which demonstrates how the systemic influence of ‘family’ and ‘business’ is a product of the continuous interaction of the collection of parts (Ackoff 1994).

46 See discussion on pp.9-11.
the firm and members of the controlling family, thereby motivating them to pursue their business goals, and in turn create the unique concerns about family business, such as balancing the interest between ‘family’ and ‘business’ (see e.g. Glassop, Hagel & Waddell 2007, 2008; Moores 2009). In other words, relational governance could become an effective governance mechanism if all of its components (structural and cognitive social capitals) functioned effectively.

However, family involvement can also create a negative impact on a family firm’s operations, such as foster a source of resistance to change (e.g. Carney 2005; Gersick et al. 1997; Zahra 2005), creating managerial constraints due to the lack of formal governance (e.g. Gomez-Mejia, Nunez-Nickel & Gutierrez 2001; Schulze 2001), and encouraging favouritism rather than competence (e.g. Le Breton-Miller, Miller & Steier 2004) through particularism (Schulze, Lubatkin, Dino & Buchholtz 2001; Gomez-Mejia, Nunez-Nickel et al 2001).

In addition, examining relational governance as a process helps explain how the informal level of social control influences the ability of family firms to achieve their economic and noneconomic goals. As with other companies, family firms naturally commit to financial performance, such as revenue, sales growth, profitability and market performance (e.g. Boyle Jr, Pollack & Rutherford 2012; Chrisman et al 2005; Sharma et al 1997), and subsequently create the economic phenomenon (e.g. leading economic growth worldwide) mainly due to family ownership and involvement in the firm’s operations (Zahra 2003), or specifically, the ability of family firms to balance family and business interests (KPMG Family Business Survey 2013).

In line with this logic, the owning family may have different emphases on performance besides achieving financial goals, such as maintaining family harmony while creating wealth for the next generations (see e.g. Habbershon & Williams 1999). As ‘the family ownership gives the family the power to influence the firm’s goals’ (Daughery 2013, p. 6), family firms may create distinctive behaviours and performance outcomes for the business that often include noneconomic considerations (e.g. Astrachan & Jaskiewicz 2008; Stanley 2010; Daughery 2013).

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For example, family business may be driven by emotional attachment to a community where the family firm was founded, or offer job opportunities to descendants of the original workers with whom the owning family shares a deep and personal connection (Astrachan & Jaskiewicz 2008).

It is therefore argued that ‘the whole idea of what constitutes family business “success” is difficult to define. ‘Success can also mean something very different from one family to another’ (Daugherty 2013, p.68). Given the uniqueness of the family business’s view on firm performance, family firm performance can be broadly referred to as:

an outcome of the continuous interactions between the business and the family (i.e. members of the family management unit being responsible for ownership and management of a family firm).

These outcomes can include business-related performance indicators such as the family firm’s commitment to strategic decision, financial performance (such as business growth, return on investment), or other family-related indicators (such as good relationships and family harmony). In this context, ‘firm performance’ is referred to as efficiencies of utilisation of resources as well as the accomplishment of organisational goals (Steer 1982 cited in Dyer 2006).

In conclusion, as governance practices of most Australian family firms often reflect ‘informal processes and arrangements’ (Craig & Moores 2011, p. 14; Glassop, Ho & Waddell 2005, 2007; KPMG Family Business Survey 2008, 2011, 2013; Moores 2009; Smyrnios & Dana 2006, 2010) of family involvement in business48, studying relational governance as a process is therefore considered useful to this study, particularly in unravelling how this informal governance mechanism influences family business and the ability of family SMEs to achieve their economic and noneconomic goals.

48 As mentioned in the Introduction (see page 12), family involvement is conceptualised as the influence that social ties between family members have on the nature and quality of the relations between them, and the influence that these subsequently have on family business governance and ultimately the ability of family firms to achieve their economic and noneconomic goals.
Hence:

**Proposition 4 (P4):** Relational governance influences the ability of a family SMEs to achieve their intended economic and noneconomic goals.

The relationship between relational governance and the ability of family firms to achieve their economic and noneconomic goals is shown in Figure 5.

![Figure 5: Relational Governance Model of Family Firms](image)

Figure 5 summarises the conceptual model of this study thus far. It shows that family institutions (structural social capital) may promote social interactions among key family members (owners and managers) by providing platforms for them to discuss family and/or business-related issues. Frequent social interactions (structural social capital) may enable members of the family management unit to create a shared vision (cognitive social capital) about the future of their firm. This scenario effectively captures the nature of relational governance of a family SME.

While acknowledging their conceptualisation, Figure 5 extends the Mustakallio, Autio & Zahra’s (2002) model by theorising relational governance (as outlined by the dotted line) as a system that functions as a process to influence the ability of family firms to be able to achieve their economic and noneconomic goals as a social system. The research findings of this study thus seeks to clarify how the interplay between structural and cognitive social capital captures the continuous interaction of ‘family’ and ‘business’, and the influence this has on the family firm’s ability to achieve its intended economic and noneconomic goals.
As already argued, the original relational governance model remains inadequate in capturing the social dynamics of family business (see pages 90-93). The next section further discusses how this study advances the existing relational governance model by exploring the nature, or the embedded context, and its impact on family business and the ability of family firms to meet their economic and noneconomic goals.

**Beyond the Relational Governance Model**

Mustakallio, Autio & Zahra (2002) acknowledge their study represents a first step towards the research direction of understanding relational governance in family business. As already noted in the Introduction, the present study responds to this by conceptualising the underlying nature, or the ‘context’, that influences family business governance and the ability of family firms to achieve their economic and noneconomic goals. As such, one of the original contributions of this study is to include the concept of *embeddedness* (see e.g. Uzzi 1997) to understand the intersection of ‘contexts’ with governance in family firms. This study argues that it is the relational dimension of social capital (identification, relational trust, obligation and norms of reciprocity)\(^{49}\) that constitutes the social dimension of the ‘context’. Like other forms of capital (such as financial capital), the development of relational social capital reflects a form of accumulated history (Nahapiet & Ghoshal 1998). This can be viewed as a ‘long-term investment’, whereby values are reflected in the quality of the relationships (Bourdieu 1986; Granovetter 1992). For instance, the development of relational trust indicates ‘value’, which is based on the repeated interactions over time between people (Nootbooom 2002). Similarly, norms of reciprocity can only be developed over time on the basis of trusting relationships (Lewis & Chamlee-Wright 2008).

Thus, relational social capital highlights *time* as an important element in developing social capital, as all forms of social capital depend on stability and continuity of the social structure (Coleman 1990; Nahapiet & Ghoshal 1998). For instance, Coleman (1990, p. 91) states that:

‘One way in which the transactions that make up social action differ from those of the classical model of a perfect market lie in the role of

\[^{49}\text{See Table 2, Chapter 2, p.63.}\]
time. In a model of a perfect market, transactions are both costless and instantaneous. But in the real world, transactions are consummated over a period of time’.

In line with this view, the concept of embedding helps conceptualise the binding of social relations in contexts of time and space. This understanding is absent in the relational governance model developed by Mustakallio, Autio & Zahra (2002). The next section therefore discusses these concepts.

Embedding Family Business Governance

The discussion of social capital can be advanced by examining the notion of embeddedness, which provides a potential link between sociological and economic accounts of business behaviour (Uzzi 1996). Embeddedness can be viewed as the process whereby social relations shape economic actions in specific ways. For instance, sociologists such as Uzzi (1997) emphasise the significance of norms and networks ties developed from a history of interaction and exchange, and the influences these have on firm performance. This indicates that actions of people are conditioned by their locations and social ties or networks based on concrete and ongoing personal relations. Alternatively, this phenomenon is referred to as ‘social embeddedness’ (Granovetter 1985, p. 440).

In family business studies, scholars (see e.g. Aldrich & Cliff 2003; Craig, Dibrell & Davis 2007) have adopted a family embeddedness perspective to highlight the role of the family in a firm’s operation. These authors suggest that the family embeddedness perspective emphasises how the characteristics of family systems (such as values, norms) can influence the processes involved in decision-making and performance outcomes. In the context of entrepreneurship, the family embeddedness perspective assists in understanding the interplay between the entrepreneurs’ family system (i.e. transitions, attitudes), the influence on the process involved in venture creation (i.e. opportunity recognition, the implementation of founding strategies) and outcomes (i.e. survival, firm performance) (Aldrich & Cliff 2003); the relationship between promoting the family-brand image and family firm performance (Craig, Dibrell & Davis 2007); and the economic impact of family involvement in business, such as the effect of family employment on performance in micro and small enterprises (Cruz, Justo & Castro 2012). Briefly, the aim of adopting the family
embeddedness perspective is to include the *family* dimension in conceptualising and modelling a theoretical framework, recognise the intertwined nature of family and business systems, and analyse the effects of characteristics of family systems on organisational decision making and outcomes (Aldrich & Cliff 2003; Zahra 2003).

However, the family embeddedness perspective does *not* account for the ‘externalities’ that also influence family business governance and the ability of family firms to achieve their economic and noneconomic goals, especially the social and business environments that family SMEs are embedded in. Thus, this study adopts the concept of *mixed embeddedness*, which refers to the interplay between the social and economic contexts in which a firm operates (Kloosterman, Van der Leun & Rath 1999). This concept is further discussed in the next section.

**Mixed Embeddedness**

Kloosterman, Van der Leun & Rath (1999) use the concept of *mixed embeddedness* to capture the social, economic and institutional contexts that influence a firm’s operation. The concept of embeddedness was originally developed by economic sociologists such as Granovetter (1985) to capture the social and cultural aspects of actors’ behaviours. However, it is argued that the wider economic and institutional contexts should also be examined (economic conditions, public policies etc.) (Kloosterman, Van der Leun & Rath 1999). Hence, these authors propose the use of mixed embeddedness to accommodate a holistic understanding of ‘what’ influences the behaviours of entrepreneurs *as a whole*. In brief, economic behaviour needs to be considered within its social context, that is, the dynamic systems of social relations within which ‘economic actors and institutions are fully enmeshed, and which can vary greatly from one type of family firm to another’ (Le Breton-Miller and Miller 2009, p.1176). While most family business research utilises theoretical perspectives from the business side, the family in fact exerts a substantial influence on the family firm (James, Jennings & Breitkreuz 2012), as in family firms, the business is embedded in the family and that ‘family and business are intertwined’ (Wiklund, Nordqvist, Hellerstedt & Bird 2013, p.1320). It is suggested that an embeddedness perspective helps address this problematic (Aldrich & Cliff 2003). This study therefore argues that the concept of mixed embeddedness is not only conceptually applicable to specific studies (immigrants, entrepreneurship etc.) but can be fruitfully used in our analysis of the research focus.
The next section first discusses the social dimension of mixed embeddedness, or alternatively termed as social embeddedness (Nahapiet & Ghoshal 1998; Uzzi 1996, 1997), which influences social relations at two levels of social capital: structural and relational.

**The Social Dimension of Mixed Embeddedness—Social Embeddedness**

Social embeddedness refers to the noneconomic attachments and institutions that may shape perceptions, motivations, and actions, and thereby influence economic behaviour (Granovetter 1985). In other words, people ‘live within networks of relationships where information, ideas, passions, and values are shared’ (Le Breton-Miller & Miller 2009, p.1176). How do social relations affect economic activities, such as business transactions? It is argued that economic action is embedded in ‘social relations that sometimes facilitate and at other times derail exchange’ (Uzzi 1996, p.674). According to Lewis & Chamlee-Wright (2008), two reasons assist in explaining the significance of socially embedded relations at the personal level. Firstly, social embeddedness is concerned with the motives that drive people’s actions. Secondly, socially embedded relations pertain to the information that informs them. On the one hand, it is argued that social embeddedness minimally affects economic exchange because in the idealised atomistic market exchange, partners are linked by arm’s length ties (see e.g. Peterson & Rajan 1994). In other words, business is business. That is, the price system regulates market exchange between individuals or groups.

When firms keep arm’s length ties with one another, their pattern of exchanges produces a market-like structure that tends to be impersonal and diffused (Baker 1990). Ongoing ties between people do not represent any wilful commitment or altruistic attachment (MacNeil 1978). Instead, according to MacNeil (1978), these ties are purely profit-seeking behaviours based on self-interest. When actors maintain these embedded economic ties, their pattern of exchange produces a network of its own (Powell 1990). Economists argue that this arm’s length exchange model captures a correct view of understanding the exchange system (see e.g. Hirschman 1970; North 1990; Roberts 1989; Williamson 1994; Wilson 1989). It is suggested that the exchange of data on price and quality contains all the information needed to make efficient decisions (Uzzi 1996), and ‘whether markets
are characterised by perfect competition or bilateral monopoly, the necessary and sufficient condition for the existence of a market is the impersonal relation between buyer and seller’ (Lazonick 1991, p. 60).

On the other hand, economists such as Krugman (1986, 1991) challenge this view about the efficacy of economic networks that constitute markets. Krugman argues that the traditional faith of ‘perfect competition’ partly reflects a judgement about reality. However, this simultaneously and equally reflects ‘a lack of any ability to describe precisely what difference deviation from perfect markets make’ (Krugman 1991, p. 78). Following Krugman’s questioning of the nature of economic exchanges, sociologists attempt to answer this by examining the notion of embedded relationships, specifically the role played by the social structure in economic actions. Compared to arm’s length ties that are ‘impersonal, market-based relationships’, embedded relationships are ‘close, special, long-term personal relationships with much significance to company success’ (Uzzi 1997). Empirical studies (see e.g. Gerlack 1992; Romo & Schwartz 1995; Smitka 1991) on embeddedness suggest that embedded exchanges have distinctive features that economists have overlooked. For example, actors in embedded relationships tend to shift their focus from winning the immediate economic gain to cultivating long-term cooperative ties (Romo & Schwartz 1995), or emphasise the importance of trust and personal ties, rather than explicit formal contracts, and how these personal relationships facilitate more predictable expectations and reduce monitoring costs (Gersick 1992; Smitka 1991). As the quality of ties or networks (i.e. relational social capital such as trust and norms of reciprocity) facilitates material exchange relationships and influences economic activity, it is argued that embeddedness is the logic of exchange whereby social relations can facilitate or derail economic action (Uzzi 1997).

The key implication from these empirical studies is that material exchange relationships between parties are not necessarily arm’s length transactions merely driven by profit (or self-interest). Instead, closure of a network configured by strong social ties and trust encourages economic exchange. Unlike formal governance structures in idealised atomistic markets featuring characteristics such as intense calculativeness and impersonal contractual ties, trust embedded in prior exchange enables exchange partners to create and reproduce economic opportunities and
flexibilities in ways that are difficult to replicate and emulate using arm’s length ties (Uzzi 1997).

Nahapiet & Ghoshal (1998) provide a specific explanation for both structural and relational dimensions of social embeddedness. In particular, the authors highlight the aspect of *time* and *space*. They define *structural embeddedness* as ‘the impersonal configuration of linkages between people or units’; and *relational embeddedness* as ‘the personal relationships people have developed with each other through a history of interactions’ (Nahapiet & Ghoshal 1998, p. 244).

The present study adopts the Nahapiet & Ghoshal’s (1998) conceptualisation of social embeddedness for two reasons. Firstly, embeddedness is a multi-facet social phenomenon that needs further elaboration. Zukin and DiMaggio (1990) broadly conceptualise the relational dimension of embeddedness, and *combine* the *quality* and *structure* of social ties into what they call ‘structural embeddedness’. However, it is argued that Nahapiet & Ghoshal (1998) have captured the dyadic nature of social embeddedness more effectively by separating the *configuration* (structure) of social ties (structural embeddedness) from the *quality* of those ties (relational embeddedness). While social ties appear to be self-explanatory, relational embeddedness focuses on the quality of those ties as manifested in *trust* and *reciprocity*. In other words, structural embeddedness represents ‘who people know’, and relational embeddedness represents ‘how well people know each other’. Both dimensions of social embeddedness have not been given much empirical attention (see e.g. Lawler & Yoon 1998; Moran 2005; Uzzi 1997), particularly in family business studies (see e.g. Aldrich & Cliff 2003; Craig, Dibrell & Davis 2007).

Hence, this study aims to substantiate the discussion of social embeddedness in the context of family business governance. The next section first discusses the structural dimension of social embeddedness, which conceptualises ‘who knows who’ within a network. The section is then followed by a discussion of relational embeddedness, which highlights the quality of the relationships between individuals.
As noted above, structural embeddedness is generally defined as the impersonal configuration of linkages between people or units (Nahapiet & Ghoshal 1998, p. 244). Practically, it refers to a network that indicates ‘who people know’ and ‘how close they are’. These include the ‘presence’ or ‘absence’ of network ties and network configuration. There are two aspects of network configuration: network centrality, which is the degree to which an individual has ties within the network and exerts influence; and network closure, which examines the extent to which all actors in a network are related to one another (Nahapiet & Ghoshal 1998). For example, the strength of family ties influences actors’ choices and decisions, as ties of different strengths provide access to different kinds of resources (Granovetter 1985; Wiklund 2013). However, the strength of the relationships among family members may vary (Aldrich & Cliff 2003), as family firms are not homogenous in relation to family involvement, the family’s commitment to the business (Melin & Nordqvist 2007), and the extent to which the business is embedded within the family between family firms (Wiklund et al. 2013).

In addition, whether actors within these network ties intend to establish and continue the social relations is also contingent upon issues such as mutual benefit, and the shared norm of reciprocity among people. Effective norms play a critical role in defining the closure of network ties (Coleman 1988). For instance, effective norms (such as family harmony) may facilitate certain actions (cohesion among family members) and constrain others (involved in innovative-based business activity). Hence, whether norms come into existence depends on the closure of the social structure (Coleman 1988).

In family firms, norms are mainly characterised by the ‘uniqueness’ of multiple role responsibilities undertaken by family members. Such involvement reflects family norms (such as responsibility), which in turn assist family firms to develop synergy by balancing the interest between family and business (Lansberg 1999a, 1999b). In other words, these norms shape the collective goals and actions of the controlling family both at a personal and business level. At the personal level, the controlling family enforces the family norms through family education, which helps create a prescriptive norm. As the norm that ‘one should forgo self-interest and act in the interests of the collectivity’ (Coleman 1988, p.104), a prescriptive norm can:
‘strengthen families by leading family members to act selflessly in the family's interest, facilitate the development of nascent social movements through a small group of dedicated, inward-looking, and mutually rewarding members, and in general lead persons to work for the public good’ (Coleman 1988, pp. 104–5).

However, if a firm is embedded in a well established network and relationships, a ‘paradox of embeddedness’ may occur, as embeddedess could create a ‘requisite fit with the current environment’, which can ‘paradoxically reduce an organisation’s ability to adapt’ (Uzzi 1997, p.57). For example, the unexpected loss of a core contact or organisation of a network (e.g. a manufacturer closes shop or migrates offshore) could possibly put another individual or organisation (e.g. a contractor that is highly skilled at working with a manufacturer’s fabric, or production schedule) at a higher risk of failure than had it diversified its ties, as it is likely to lack the resources needed to transition to a replacement partner (Romo & Schwartz 1995; Uzzi 1997). In addition, if all firms in a network are all connected through embedded ties, which is also known as the ‘overembeddedness’ of a network (Uzzi 1997); the flow of new or novel information could be reduced if there were few or no connections with other individuals outside the network who could potentially contribute innovative ideas (Burt 1992). As a result, an overembedded network could become ‘out of step with the demands of its environment’ or ‘release negative emotions of spite and revenge that trap firms in self-defeating cycles of behaviours’, especially if trust and cooperation are exploited in embedded ties, which in turn reduce the firm’s ability to make rational decisions and meet the economic demands of the market place (Uzzi 1997).

Briefly, as structural embeddedness captures the configuration of social ties, relational emebeddedness focuses on the quality of those ties manifested in relational trust and reciprocity. This is further discussed in the next section.

*Relational Embeddedness and Relational Governance*

Relational embeddedness describes the kind of personal relationships actors have developed with each other through a history of interactions (Granovetter 1992). The term relational embeddedness focuses on various aspects that influence actors’
behaviours, such as trust, mutual respect and friendship. Trust for instance is considered a trait embedded in an exchange relation. Trustworthiness is the effect of trusting relationships over time (Fukuyama 1995; Putnam 1993).

Closure of social relationships is critical for trustworthiness, which allows the proliferation of obligations and expectations (Coleman 1988). For instance, during the trust building process, individuals or groups involved in a network of trust intend to find a solution by ‘voice’ (Six 2005 cited in Nooteboom 2002). Openness to voice out is essential to build up trust, which can be deepened by open disagreement (Zand 1972). During the process of establishing mutual trust, the historical trustworthiness of parties in previous interactions with others pre-determines cooperation (see e.g. Burt & Knez 1996; Rousseau et al. 1998), and in the longer term generates positive effects within its social connections (for example, good reputation as trustworthy). Once an exchange partner is granted a ‘trustworthy’ status, they are expected to ‘behave in a trustworthy fashion in the future’ (Poppo & Zenger 2002, p. 710). Thus, a high level of social interaction positively promotes trust, emotional intimacy and mutual empowerment (Joshi 2006; Patulny & Svendsen 2007). Routine contacts with people in informal and formal settings strengthen trust in others (Welch, Sikkink & Loveland 2007).

In the study of network and relationships, trust is an important but contested aspect of social capital. As discussed in Chapter 2 (see page 57), trust can be referred to ‘as the confidence that people will work for mutual gain and refrain from opportunistic behaviour’ (Cooke & Morgan 2000, p. 30). As a result, trust is ‘a rational expectation of the behaviour of others’ (Dasgupta 1999, p. 330), or specifically the expectation that ‘alleviates the fear that one’s exchange partner will act opportunistically’ (Bradach & Eccles 1984, p. 104). Trust can also be identified as a foundation to build relationships that are juxtaposed with relational risk, which yields vulnerability between parties, and a possibility of loss (Chiles & McMakin 1996; Luhmann 1988). For instance, cooperation within groups can be legally bonded in the form of contract to avoid risk where trust is not particularly high (Williamson 1975; Smitka 1994). In other words, if adequate trust is not present, some control mechanisms such as a formal contract will create ‘the legal binding effect to minimise risk’ (Nooteboom 2002, p. 399).
However, this instrumental view of trust attracts criticism, as it confuses credibility derived from calculative risk with the *ethical* value of trust. In line with this logic, trust is a calculative measure based on rational choice such as economic benefits through the exchanges from parties. The perceived positive intentions in the calculated-type trust derive not only from the existence of deterrence, but also because of credible information regarding the intentions or competence of another (Barber 1983). Nonetheless, it is also argued that the calculative aspect of human behaviour ‘devalues relationships and possibly leads to a loss of mutual satisfaction’ (Williamson 1993, p. 484). It is because trust is not a control mechanism but a substitute for control, thereby reflecting a positive attitude about motives of people (Poppo and Zenger 2002). For example, people may ‘voluntarily exert extra efforts to enforce the norm of reciprocity’ (Uzzi 1997, p. 43). These efforts can alternatively be referred to as ‘favours’, which can be used as an informal device to enforce voluntary reciprocation, as opposed to written contracts as formal contractual governance mechanism. Consequently, the role played by trust enriches the organisation’s ability to overcome problems.

This scenario can be further conceptualised by the notion of *relational trust*, which is referred to as trust based on repeated interactions *over time* between trustor and trustee (Nooteboom 2002). According to Nooteboom (2002), reliability and dependability in previous social interactions with the trustor give rise to positive expectations about the trustee’s intentions, or vice versa. Specifically, repeated exchange and successful fulfilment of expectations strengthen the willingness of trusting parties to rely upon each other (Rousseau et al. 1998).

Compared to calculating trust that evolves from an arm’s length transaction, relational trust entails a greater level of faith in the intentions of others. Exchanges based on calculating trust are likely to be terminated once violation occurs, but exchanges characterised by relational trust often are more resilient (Nooteboom 2002). According to Nooteboom (2002), unfulfilled expectations can survive when relational trust exists, particularly if people make an effort to restore a sense of good faith and fair dealing to their interactions. People involved in repeated interactions tend to cooperate and create expanded resources, such as sharing information and concern. These resources in turn give rise to a psychological identity within individuals (Gaertner, Dovidio & Bachman 1996). For instance, employees may
come to characterise themselves in relation to their teammates or firm as ‘we’, which is an example of ‘identity-based trust’. In line with this logic, trust is an emotional response based on interpersonal attachment and identification, such as a social identity shared among family members by kinship (Nooteboom 2002). This strengthens an individual’s affiliation to feel part of a ‘in-group’ (i.e. family), which motivates people to act in accordance with collective goals, rather than individual gains (Leana & Van Buren 1999).

To conclude, trust is perceived as a process of human behaviour, which can be manifested in different forms ‘ranging from a calculative measure of perceived gains and losses, to an emotional response based on interpersonal attachment and identification’ (Nooteboom 2002, p. 398). Social norms and values shape mutual behaviours of actors involved in trust relationships, and their beliefs regarding the intentions of others in their associated social ties and networks (Sitkin & Stickel 1996). Within these social links, individuals share a high level of trust, which consequently generates cooperation. Briefly, trust is considered important in aspects of enabling cooperative behaviour (Deutsch 1962; Gambetta 1988); promoting adaptive organisational forms, such as network relations (Miles & Snow 1992); and reducing harmful conflict.

The study conceptually posits trust as relational trust embedded in the social relationships among members of the family management unit. It is because as one of the key facets of relational social capital50, the development of relational trust constitutes a form of accumulated history (Nahapet & Ghoshal 1998): that is, people ‘earn’ their ‘trustworthy’ status and develop relational trust if they have dealt honestly with each other in the past (see e.g. Poppo & Zenger 2002). In line with this logic, the study suggests that relational trust is conceptually time-bound and generated through a history of social interactions among individuals sharing close relationships. The repeated interactions over time between individuals give rise to relational trust and continuous reciprocal behaviours (Nooteboom 2002).

Similarly, relational governance typically emerges from the values and agreed-upon processes found in social relationships (Heide & John 1992; MacNeil 1978, 1980;

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50 Chapter 2 (pp. 61-63) has discussed the key facets of relational dimension of social capital.
Poppo & Zenger 2002). Routine contacts in informal and formal settings strengthen trust in others. In these settings, the multitude of frequent social interactions reinforces mutual obligations among people, who in turn act supportively and treat others in the same manner (Welch, Sikkink & Loveland 2007). Frequent social interactions consequently enhance the level of trust, emotional intimacy and mutual empowerment (Joshi 2006; Patulny & Svendsen 2007). This leads to the discussion presented in the next section, which examines the relationship between family business governance and its embedded social (structural and relational) context.

**Structural and Relational Embeddedness, Family Business Governance and the Ability of Family Firms to Achieve their Economic and Noneconomic Goals**  
*(See Figure 6, page 120, propositions 5 and 6)*

As previously discussed from pages 76 to 90, relational governance is an informal level of social control that develops in family business as a result of the interplay between the key elements of structural social capital (i.e. family institutions, size of the family management unit, social interaction) and cognitive social capital (i.e. shared vision). Family institutions range from informal doorframe meetings to formal meetings that may include non-family members such as an accountant or lawyer. These institutions seem to generally correspond to the size of the family management unit, which refers to the number of family members involved in the operational and strategic planning for the business. These aspects influence the level of shared interactions that these family members have. The importance of having shared interaction is that it generates a shared vision between members of the family management unit about the economic (business) goals (e.g. return on investment) and noneconomic (family) goals (e.g. transgenerational transfer of funds; family harmony), which is a distinct feature of family business. As such, it is almost an imperative that family business needs to be able to create a shared vision among family members, as it influences the ability of family firms to meet their intended economic and noneconomic goals. Understanding the operation of relational governance therefore helps understand the main concern of Australian family business, which indicated that balancing family concerns with business interest remain their top priority (KPMG Family Business Survey 2013).

However, no business is immune from the influences within its environment, which can be conceptualised by mixed (social, economic and institutional) embeddedness
(see pages 97-98). While economic and institutional embeddedness are relatively self-explanatory, social embeddedness is a dynamic variable, as it relates to the level of social ties and networks that the same family have developed and maintained between themselves, and with those outside the family. Social ties are strengthened through interaction among family members playing both family and business roles (Boissevain 1974). This creates closure to a network, which helps develop their collective thoughts about the values, business ethics and the firm’s future direction. These ‘collective thoughts’ subsequently shape the shared norms and values that provide a rationale to justify right from wrong, thereby guiding their actions and behaviours (Staveren & Knorringa 2007). Family values (such as honesty, loyalty, integrity and accountability) therefore influence the business behaviours of family members. As a result, these assist in aligning the goals of the family and the business through frequent social interactions facilitated by both informal and formal gatherings. Such occasions enable family managers and owners to forge the same vision about business goals and strategies.

In other words, in addition to social interactions, family values also strengthen the social ties among family members, and facilitate the operation of the familial network. This argument is supported by the literature, which suggests that social norms and values influence mutual behaviours of parties involved in trust relationships, and their beliefs regarding the intentions of others in their associated network (Sitkin & Stickel 1996). In addition, frequent, longer-term interaction consequently leads to the formation of attachments and emotions based on reciprocated interpersonal care and concern (McAllister 1995). This tends to encourage organisational citizenship behaviour, which refers to ‘actions by individuals that go beyond what is expected by the normal job description, and include behaviours serving the collective good’ (Uhlaner, Floren & Geerlings 2007, p. 278). From the embeddedness perspective, such commitment is an observable characteristic of high levels of relational trust based upon experience with a relationship (Eisenberger, Huntington, Hutchinson & Sowa 1986; Organ 1990).

However, as already noted on page 102 of this chapter, ‘paradoxes of embeddedness’ may occur if a firm is embedded in its well established network and relationship and exploits trust in these relationships; this can in turn influence the firm’s ability to create innovate ideas, make rational decisions, adapt to changes
and meet the economic demands of the market (Burt 1992; Uzzi 1997). As also discussed in the Introduction (pages 9-11), family involvement in business does not necessarily contribute to positive firm performance, especially if family members practice family-based altruism to prioritise the family’s interest (e.g. Lubatkin, Durand & Ling 2007; Schulze et al. 2001). When personalism\textsuperscript{51} dominates, this can potentially affect the family institution used, the size of the family management unit and subsequently the level of social interaction. For instance, the level of social interaction may become negative when family members view the firm as ‘their business’ practices favouritism (e.g. Perrow 1972) or family-based altruism, such as parent’s unconditional transfer of goods to children and prioritising their children’s interest over their own (Le Breton-Miller & Miller, 2009; Lubatkin, Durand & Ling 2007; Schulze et al 2001). Consequently, the level of shared vision becomes affected and in turn influences the ability of family firms to achieve their economic and noneconomic goals, as family members fail to create a shared vision among themselves about the intended economic and noneconomic goals.

On the other hand, in the context of family business, relational trust appears to be contingent upon relational governance of family firms: that is, the interplay between the key elements of structural social capital (i.e. the size of the family management unit, the nature of social encounters such as frequent informal meeting, and the closure of social ties among family members involved in the unit) and cognitive social capital (i.e. shared vision). Strong social ties seem to promote relational trust through repeated interactions among family members. Ideally, reciprocal involvement grounded with relational trust contributes to the closeness of family relations and frequent interactions, which enable family members to create a shared vision about the business future.

Hence:

\textit{Proposition 5 (P5):} In family firms, there is a relationship between social (structural and relational) embeddedness and relational governance.

\textsuperscript{51}See Chapter 2, p. 67; a family firm is characterised by personalism when the unification of ownership and control concentrates and incorporates organisational authority in the hands of members of the controlling family.
Similarly, at the business-to-business level, organisational exchange is characterised as ‘the repeated interactions based on social relationships’ (Poppo & Zenger 2002, p. 709). Economic activities that are embedded within a social structure can affect ‘the balance of access to economic resources and positions of authority’ (Lewis & Chamlee-Wright 2008, p. 115). For example, relational trust embedded in prior exchanges enables the trustor and trustee to create and reproduce economic opportunities (Uzzi 1997). Unlike the idealised atomistic markets featuring impersonal contractual ties, the historical trustworthiness of people in previous interactions with others pre-determines cooperation (see e.g. Burt & Knez 1996; Rousseau et al. 1998). In the longer term, relational trust builds up the trustor’s and the trustee’s reputations within their social connections.

In addition, when negotiations are embedded in dense networks of social interaction, incentives for opportunism are reduced (Putnam 1995). Specifically, when trust is embedded in close relationships, opportunistic behaviour is unlikely to occur because each member tends to forgo short-term gains in favour of the interest of the partnership, thus reducing the transaction costs associated with exchange (due to a reduction of monitoring costs) (Steier 2001b). These consequently contribute to the organisational advantage of family business (Ghoshal & Moran 1996). In addition, ‘a sense of community’ exists between the customers and family firms within their social networks. If used effectively, relational trust embedded in these social networks or communities can reinforce the competitive edge of a firm, and act as a substitute for a formalised governance arrangement such as documented contracts (Nooteboom, Berger & Nooderhaven 1997).

Relational trust among family members embedded in close relationships could also be viewed a major organisational social capital (‘OSC’), which is broadly defined as a resource reflecting the character of social relations within the organisation, including the ‘goodwill and resources that companies gain from their relationships with other companies’ (Zahra 2010, p.345). In family firms, OSC results from family firms’ interaction, communications and relationships with external stakeholders. For example, connecting with key stakeholders (including clients and

52 See page 69, Chapter 2.
suppliers) enables family firms to gain the knowledge necessary to stimulate new business opportunities and develop revenue streams that generate profits and growth (Zahra 2010, p. 346). When family firms share their strong norms and relational trust with their key stakeholders, the transactions tend to be based on trustworthiness, without the need for cumbersome legal contracts (Coleman 1988). Relational trust and norms of reciprocity therefore enable family firms to obtain resources from other firms (Arregle et al. 2007), or can strengthen associability that reflects motives closely associated with collective norms and ownership commitment (Uhlaner, Floren & Geerlings 2007). However, as embeddedness is the logic of exchange whereby social relations can facilitate or derail economic action, strong OSC could potentially become an impediment to innovation as people are embedded in established practices (Leana & Van Buren 1999).

Hence:

**Proposition 6 (‘P6’):** In family firms, social (structural and relational) embeddedness influences the business-to-business relationship, which in turn influences family business governance and the ability of family firms to achieve their economic and noneconomic goals.

In conclusion, the present study argues that the social dimension of mixed embeddedness is contextualised by social networks based on shared experience and identity. This study suggests that this social aspect of embeddedness is conceptualised and enriched by the concept of social embeddedness as discussed in the previous section. There are two dimensions of social embeddedness: the first is in terms of structural embeddedness, which is referred to as the configuration of one’s social connection; while the second is with respect to relational embeddedness, which indicates the quality of those relationships (Nahapiet & Ghoshal 1998). Both dimensions must be taken into account when attempting to explain productive exchange over time (Granovetter 1992; Moran 2005; Rowley, Behrens & Krackhardt 2000). However, social embeddedness is an externality that influences the process of relational governance. As already stated, relational

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53 Associability is defined as the ‘degree of willingness and ability of participants in an organisation to subordinate individuals, goals and actions to collective goals and actions (Leana & Van Buren 1999, p 541). See page 69, Chapter 2.
governance is an informal level of social control that evolves as a result of the interplay between structural and cognitive social capital associated with the family management unit in the family business. Social embeddedness (structural and relational) on the other hand is the influence that configurations and relations associated with business-to-business relationships that are external to the family management unit (for example, banks, suppliers and customers) have on the process of relational governance.

However, while adapting the conceptualisation of social embeddedness Nahapiet & Ghoshal (1998) have not further explained the economic and institutional aspects of mixed embeddedness. These are discussed in the next section.

The Economic and Institutional Dimensions of Mixed Embeddedness
As already noted, mixed embeddedness is a concept that encompasses the crucial interplay between the social, economic and institutional contexts in which a firm operates (Kloosterman, Van der Leun & Rath 1999). In fact, the economic dimension can be contextualised by the market conditions that determine business activities. This dimension can be further discussed by examining environmental turbulence, which can be defined as frequent and/or unexpected changes in technological and market conditions (Jaworski & Kohli 1993), or factors outside the organisation that have a major influence on the success or otherwise of the business (Glassop, Hagel & Waddell 2008). These factors include GFC, changes in the marketplace, technology and competition in a free market economy. To a larger extent, a firm’s operation, market and economic trends are all embedded within its institutional context, such as government policies with enforcement that affect the opportunity structure (Espring-Andersen 1996).

Environmental turbulence can affect a family firm’s operation in aspects of changing its marketing practices or operating procedures to keep up with competitors (Mustakallio, Autio & Zahra 2002). For instance, challenges posed by technological and market uncertainties can serve as stressors to a firm’s operation, and consequently adjust the firm’s strategic objectives and actions to adapt to the unforeseeable changes. When facing high levels of environmental turbulence, firms tend to use formal governance to alleviate exchange hazards (Williamson 1986) and
minimise the costs of performance losses emerging from such risks (Heide 1994; MacNeil 1978). It is argued that contractual-based governance serves as a more efficient governance mechanism, as it facilitates procedures and negotiations to resolve unpredictable outcomes in form of complex written contracts (Poppo & Zenger 2002).

However, contractual-based governance appears to be inflexible in a highly volatile business environment. For example, a market can be more than competition and calculative exchange based on economic interests (Boettke & Storr 2002), and hence increases the need to adapt to change (Poppo & Zenger 2002). In fact, social relations embedded in relational trust enable the exchange parties to create economic opportunities (Uzzi 1997). In comparison to contractual-based governance, governance based on relationships enforces obligations and promises between the exchanged parties through social processes based on trust and commitment (Poppo & Zenger 2002). From a relational governance perspective, mutual adjustment procedures based on relational trust and norms of reciprocity can overcome the inflexible nature of forward-planning processes via a priori agreement. Further, relational governance induces capabilities such as flexibility, solidarity and information exchange, which are crucial to firms that manage business-to-business relationships under environmental turbulence (Poppo & Zenger 2002). This is further discussed in the next section, which examines the relationship between the effect of economic and institutional embeddedness on family business governance and the ability of family firms to achieve their economic and noneconomic goals.

Economic and Institutional Embeddedness, Family Business Governance and the Ability of Family Firms to Achieve their Economic and Noneconomic Goals

(See Figure 6, page 120, proposition 7)

As discussed previously, economic and institutional (mixed) embeddedness can influence a firm’s operation, including family firms. Given the economic
significance of family business\textsuperscript{54}, it is beyond doubt that family firms have a profound influence on a country’s economy. This problematic should be grounded in an understanding of the uniqueness of family business governance.

As with other companies, family firms are embedded in their business environment, which in turn enables the controlling family to develop social capital that leads to competitive advantage (Aldrich & Cliff 2003). In line with this logic, the economic dimension of mixed embeddedness indicates a firm’s connection and location in their industry (Adler & Kwon 2002), and provides information about potentially viable opportunities to exploit their networks with other companies for profits (see e.g. Granovetter 1985; Uzzi 1997). For example, family members develop and maintain relationships both within and outside the firm. Again, the personal dimension of social capital, or family social capital (‘FSC’), may help create and develop organisational social capital (‘OSC’) (Arrgele et al. 2007). Specifically, family firms can connect with other companies not only to gain the knowledge necessary to create more business opportunities, but also ‘safeguard against conservatism, which can threaten their survival’ (Zahra 2010, p. 346).

Nonetheless, firms are undoubtedly vulnerable to environmental turbulence (Granovetter 1973). Family businesses are no exception to this threat. Addressing the challenges posed by unexpected circumstances, such as an economic downturn, therefore requires family businesses to connect with other companies, which can then provide them with needed support, knowledge and trust.

\textsuperscript{54} As noted in the Introduction (see p. 18), family business represents the dominant business form worldwide (see e.g. Elstrodt 2003; La Porta et al. 1998; Shanker & Astrachan 1996; Van den Berghe & Carchon 2002). For instance, the vast majority of European firms are family-owned (see e.g. La Porta et al. 1998; Van den Berghe & Carchon 2002).

Likewise, approximately 20 million of the 22 million businesses in the United States are family-owned and controlled (Shanker & Astrachan 1996) and privately held businesses in which families hold significant ownership or management positions represent 80 per cent of all firms in the United States (Daugherty 2013).

In Australia, family business accounts for approximately two-thirds of all businesses operating in the country (Moores 2009; Parliamentary Joint Committee on Corporations and Financial Services 2013) and employs the majority of the Australian workforce (Glassop, Hagel & Waddell 2007; Smyrnios & Dana 2006).
Hence:

**Proposition 7 (P7):** Economic and institutional (mixed) embeddedness influence family business governance and the ability of family firms to achieve their economic and noneconomic goals.

### The Relationship between Relational and Formal Governance in Family Firms

*(See Figure 6, page 120, propositions 8 and 9)*

Examining the relationship between the contractual (formal) and relational governance is in fact another response to Mustakallio, Autio & Zahra (2002, p.220)’s call for future research:

‘Future studies should also examine the nature of the relationship between the contractual and relational governance...as trust develops, relational governance might substitute for the more contractual system. Alternatively, at times of organisational crises, contractual governance might surpass relational governance. Clearly, researchers should explore the relationships of these two systems’.

Their findings suggest that contractual (formal) governance and relational governance complement each other. The authors argue that when family members are part of the board of directors or management, their social interaction will influence the functioning of formal governance, such as board monitoring. This governance mechanism in turn plays a key role in affecting the quality of strategic decisions and commitment to their execution (Mustakallio, Autio & Zahra 2002). This study argues that the decision to formalise governance *per se* can be considered strategic decision for family firms, as it demands firm’s resources, such as skills and social capital, for its implementation, which in turn impacts on a family firm’s operation.

However, Mustakallio, Autio & Zahra (2002) have not explained the ‘why’ and ‘how’ both governance mechanisms co-exist, or if they are indeed complementary. Firstly, family businesses are not necessarily driven by pure financial goals (for example, profit maximisation), but possibly place a higher value on stakeholders’ calls for change, rather than any financial returns, such as providing
jobs to descendants of the original workers with whom the controlling family shares a strong personal connection (Astrachan & Jaskiewicz 2008).

In the context of governance, these goals in turn reflect the need to balance the interests of the owning family and the business. This originates from the unification of ownership and management for the controlling family, and the subsequent influence of multiplexity. Hence, this study argues that as family business governance necessarily interweaves the family and the business, it must also interweave relational and formal governance. On the one hand, relational governance captures the ‘informality’ of a family firm’s operation. Most family businesses do not believe that the success of family business relies on formal rules and procedures (Smrynios & Dana 2010). On the other hand, the study argues that formal governance may ‘incorporate’ relational governance. Despite highlighting the insufficiency of using the traditional, formal governance perspective (i.e. corporate governance perspective) to understand family business governance, this by no means negates the role of formal governance mechanisms (e.g. Board) in family firms. In fact, either the absence or existence of formal governance in family business may be contingent upon the ‘externality’ of the firm, such as economic downturn. Hence, family business governance can be an articulated system that facilitates both the formal (contractual) and informal (relational) governance. Eventually this is critical for the firm’s long-term development, particularly in ensuring its accountability and effectiveness of management.

From a macro perspective, the success of family firms therefore depends not only on the ability to manage the ‘family’ but also the ‘environment’, which involves the external stakeholders such as customers, suppliers and banks (Bauer 1993 cited in Gubitta & Gianecchini 2002). For example, at the first stage of a family firm’s life, the founder of the controlling family often needs to manage both the family dynamics and the external business connections (Bauer 1993). In Australia, ‘family business stewards in the early life stages of the business typically favour informal governance and control mechanisms’ (KPMG Family Business Survey 2011, p. 5). As time passes, a high level of personal control by the founder may diminish when

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55 As already discussed in p.2 (Introduction), multiplexity is referred to as the overlap between two social networks with the same people linked together across different roles (Portes 1998).
the family firm faces environmental uncertainties, such as business growth and complexity derived from changes in marketplace and competition. As new issues arise, these emerging forces will activate the process of separating ownership and management (see e.g. Berle & Means 1932; Jensen & Meckling 1976).

Specifically, it is the ‘need’ to adapt business practices and goals in response to environmental challenges that in turn generates the delegation process (Gubitta & Gianecchini 2002), and subsequently culminates in establishing formal governance. In this scenario, formal governance such as an executive board is created to improve the decision-making process. An executive board is a formal governing mechanism that includes individuals (i.e. non-family managers) holding critical positions in the family firm (Gubitta & Gianecchini 2002). A governing body such as this has responsibilities to ‘work on the basic strategic objectives, to foster discussion and confrontation on operation proposals, to solve operation problems, to verify the implementation of strategies and to start corrective actions' (Gubitta & Gianecchini 2002, p. 279).

In the context of decision making, such formal governance mechanisms assist firms in making rational decisions in rapidly changing environments. These environments are characterised by rapid change in technology and demand. According to Bourgeois & Eisenhardt (1988), effective executives employ an analytic and thorough approach when confronting high levels of environmental turbulence. Notwithstanding this, when managers are pressured with time, they are required to respond quickly to external challenges. Bourgeois & Eisenhardt (1988, p. 833) depict this paradoxical scenario as ‘plan carefully and analytically, but move quickly and boldly’; and further state that in high volatile environments, top managers achieved better firm performance on sales and profitability if they adopted rational decision making and reacted quickly within a short timeframe.

Briefly, in the face of environmental turbulence, a firm should plan carefully and respond quickly. Under such circumstances, it is in fact the ‘externality’ (such as business growth) that ‘creates’ the ‘need’ to facilitate more ‘formality’ into the existing family business governance system.
Hence:

**Proposition 8 (‘P8’):** There is a relationship between relational governance and formal governance in family firms\(^{56}\).

**Proposition 9 (‘P9’):** Formal governance influences the ability of family firms to achieve their economic and noneconomic goals.

**Summary: The Relationship between Embeddedness and Family Business Governance**

The exploration of embeddedness is new theoretical ground in family business studies, particularly in the governance context\(^{57}\). As a type of institution embedded in a civil society, a family business develops and maintains its networks with organisations, which provide reciprocity such as mutual assistance (for example, information exchange within industries and markets; to inform each other about business opportunities), and furnish a common set of largely unwritten rules with respect to business practices (Kloosterman, Van der Leun & Raft 1999). As with non-family firms, a family firm’s operation is influenced by a variety of embedded factors, such as relational trust and environmental turbulence. According to Poppo & Zenger (2002), economic exchanges such as business transactions based on strong personal relationships create two main advantages. Firstly, flexibility enables firms to adapt to external conditions, such as unforeseeable technological and market changes. Secondly, solidarity and information sharing facilitate problem solving between firms.

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\(^{56}\) In a family firm’s context, the formalisation of governance practices refers to the establishment of formal governance such as a Board, and/or the formation of formal business meeting, strategic plans and documented family code.

\(^{57}\) Since the thesis was submitted in 2011 and this revision, there has undoubtedly been an emerging canon of literature that has examined the influence of embeddedness in family business studies (e.g. Chrisman, Sharma, Steier & Chua, 2013; Wiklund, Nordqvist, Hellersydet & Bird, 2013; Nordqvist, Sharma & Chirico, 2014). This reflects an emerging trend in family business studies overall to consider more sociological issues (for example, the emerging body of literature on emotion in family business). However, when the study was undertaken, embeddedness was still a relatively unexplored concept. Apart from the more recent 2014 publication by Nordqvist et al. (2014) it is still the case however that there is relatively little examination of relational governance AND embeddedness in the literature.
From a social embeddedness perspective, governance based on relationships can be theoretically framed by ‘who people know’ (structural embeddedness) and ‘how well people know each other’ (relational embeddedness). Structural embeddedness can be examined in two types of relationships. For family relationships, this study focuses on examining the functions of network ties and prescriptive norms (i.e. family values and norms) among members of the controlling family. For business-to-business relationships, the study examines the configuration of network ties. These refer to family firms’ key stakeholders, such as business clients and suppliers, and the role played by norms of reciprocity in these relationships.

Likewise, relational embeddedness is also examined at the family-to-family and the business-to-business level. In a familial relationship, relational trust manifested in ‘identity-based trust’ can be based on the family values and norms, which in turn shape the trusting relationships between family members. This family social capital potentially influences relational governance of family firms. On the business-to-business level, relational governance embedded in relational trust may affect business relationships, which could consequently influence family business and subsequently the ability of family firms to achieve their intended economic and noneconomic goals. As previously mentioned, governance based on relationships create advantages such as flexibility, solidarity and information and exchange (Poppo & Zenger 2002). In a family business context, these capabilities appear to play a critical role when a family firm encounters business challenges. By tapping into ‘resources’ such as relational trust, family firms and their long-term business counterparts may provide mutual assistance, such as information exchange within industries and market to inform each other about business opportunities. Both exchanging bodies may also furnish a common set of largely unwritten rules with respect to business practices, such as norms of reciprocity, that shape a ‘gentleman’s agreement’ as a substitute of formal contract (see e.g. Granovetter 1985; Uzzi 1997). In other words, informal social controls ‘push formal contracts to the background’ (Poppo & Zenger 2002, p. 711), particularly when one party trusts the other. In this case, ‘there is simply little need for contractually specifying actions’ (Larson 1992, p. 98).

In addition, the resilient nature of relational trust promotes social cohesiveness and allows family firms to overcome business problems in difficult times. Consequently,
the structural and relational aspects of social embeddedness influence family business governance, which in turn influences the ability of family firms to meet their economic and noneconomic goals. Besides the social aspect of embeddedness, a family firm’s operation can be further influenced by environmental turbulence. How the controlling family responds to such mixed (social, economic and/or institutional) embeddedness becomes a central problematic to a family firm’s ability to be able to achieve its intended goals.

**Summarising the Conceptual Framework of the Study**

Starting from the left of Figure 6 (see page 120) it is the relational governance that draws mainly on the concept of social capital. This part of the model suggests that family institutions and the size of the family management unit could contribute a level of social interaction among family members associated with the management unit. This could result in the creation of a shared vision. The interplay between these dimensions of social capital could potentially constitute relational governance. Mixed (social, economic and institutional) embeddedness also influences a family firm’s operation, such as the formation of formal governance. In tandem with relational governance, formal governance may also influence the ability of family firms to achieve their economic and noneconomic goals.
Figure 6: Conceptual Framework:

The Influence of Relational Governance on the Ability of Small and Medium-sized Family Firms to Achieve Goals
Conclusion

Governance represents the interactive process of family and business in family firms. This chapter first discusses ‘how’ and ‘why’ this study modifies the relational governance model developed by Mustakallio, Autio & Zahra (2002). The present study has generally adapted this model mainly because it effectively and clearly ascertains the relationship between the structural and cognitive dimensions of social capital within the family business context. As depicted in Figure 5 (see page 94), family institutions (structural social capital) may facilitate members of the family management unit (structural social capital) to socially interact with each other. This could create a shared vision (cognitive social capital) that determines the firm’s future strategies and goals.

In addition, this study extends the relational governance model by suggesting that a family firm’s operation is contextualised by its associated embeddedness. This chapter discusses the concept of mixed embeddedness, which refers to the interplay between social, economic and institutional contexts in which a firm operates (Kloosterman, Van der Leun & Rath 1999). In response to that, the study has developed an original conceptual framework, which aims to provide a dynamic, rather than a static, view in understanding the ‘big picture’ of the governance problematic in family firms. The conceptual framework as shown in Figure 6 is substantiated with empirical evidence from the adapted research methods, as discussed in the next chapter.
PART B

RESEARCH METHOD AND FINDINGS
CHAPTER 4

Research Method

The use of both quantitative and qualitative techniques to obtain a clearer picture of reality makes sense and answers many of the questions raised by the critics of traditional empirical research...the generative research method is the model for structuring and chronologically ordering the combination of qualitative and quantitative methods.


Introduction

As discussed in the previous chapters, the research focus of the study is on understanding how relational governance as an informal level of social control influences family business and the ability of single-family small-to-medium sized enterprises (SMEs) in Australia to be able to achieve their economic and noneconomic goals.

The study adopts a mixed methods research design that is grounded in the generative research method (Simon, Sohal & Brown, 1996) to undertake the research. The aim of this chapter is to describe this research method. The chapter firstly describes the mixed methods design that has been adopted, and the use of the generative research method (Simon, Sohal & Brown 1996) for this study, and concludes by discussing the ethical considerations, limitations and problems encountered with the research process.

Mixed Methods Design

The mixed methods design embraces the mixture of qualitative and quantitative approaches in the research process (Creswell & Plano Clark 2007, 2011; Greene, Caracelli & Graham 1989; Tashakkori & Teddlie 2003). It is suggested that by collecting, analysing and mixing both quantitative and qualitative data in a research study, more comprehensive evidence for studying a research problem can be gathered compared to either quantitative or qualitative research alone (Creswell
2006, p.9), thus enabling new insights into existing knowledge or phenomena to be gleaned (Creswell & Plano Clark 2011).

The mixed methods design has emerged in recent years as a research approach popular in many disciplines (Creswell 2011). As such, it is not surprising that critical commentaries on mixed methods research have surfaced (Creswell 2011), including a long-standing argument that qualitative and quantitative methodologies are polarised and cannot, or should not, be mixed due to different assumptions that each of these methodologies follows (Brown, Crawford & Hicks 2003; Guba & Lincoln 1988). However, it is argued that in the research world, there is a strong and essential common ground between qualitative and quantitative research (Yin 2003). The mixed methods design provides strengths that offset the weaknesses of both quantitative and qualitative research (Creswell & Plano Clark 2007; Jick 1979). For example, quantitative research is considered weak in understanding the context of a research problem, while qualitative research is seen as deficient because of a smaller number of sample groups (compared to quantitative research) and personal interpretations about data and research findings made by the researcher (Creswell & Plano Clark 2007). By enabling the use of both quantitative and qualitative data collection methods, the mixed methods design enables a researcher to address and solve problems using both numbers and words, and in turn provides ‘more comprehensive evidence for studying a research problem than either quantitative or qualitative research alone’ (Creswell & Plano Clark 2007, p.9).

There are different approaches for designing mixed methods studies. Nonetheless, these fall into two categories: typology and dynamic. A typology-based approach emphasises the selection of a particular design to a study’s research focus and questions. Creswell & Plano Clark (2009) identify fifteen classifications. Dynamic approaches to mixed methods design consider and interrelate multiple components of a research design, rather than select a design from an existing typology. An example of a dynamic approach is the synergistic approach (Hall and Howard 2008), whereby both quantitative and qualitative research is equally positioned in terms of ‘value’ and in particular enables consideration of how epistemology, theory, methods and analysis work together to provide a robust approach to a research methodology.
Mixed methods design is particularly useful in exploratory research, such as is the case with this study. The study has adapted two types of mixed method designs: the *exploratory* sequential design (also referred to as the exploratory design) and the *explanatory* sequential design (also referred to as the explanatory design). The *exploratory* design guided the collection and analysis of qualitative data in the first phase, see Figure 8. Subsequent analyses of the interview data fleshed out the research themes. A survey questionnaire was developed using the results from this phase and administered in phase 2. Guided by an *explanatory* design, the quantitative findings from this phase extended the understanding gained in the qualitative findings of the first phase (Creswell & Plano Clark 2011). Analysis of the quantitative data from phase 2 informed the collection and analysis of further qualitative case study data in phase 3.

As discussed in the Introduction of this chapter, there is limited empirical research about relational governance in family business and how this influences the ability of family firms to be able to achieve their economic and noneconomic goals. Thus, a major reason for using a mixed methods design in this study is to be able to meet the test of triangulation and to therefore be confident about the trustworthiness of the analysis that is subsequently offered. Triangulation is referred to as a situation when a hypothesis, or hypotheses, is considered valid when confronted with a series of research methods of testing (Webb et al. 1966) and when the use of different methods in the same study seeks ‘convergence, corroboration and correspondence of results’ (Greene, Caracelli, and Graham 1989). To improve the accuracy of judgements, organisational researchers should collect ‘different kinds of data bearing on the same phenomenon’ (Jick 1979, p. 602), or what Yin (2003) refers to as *data triangulation*. This discussion provides the justification of employing the generative research method for this study, as the qualitative case study finding assists in triangulating the preceding phases of quantitative survey finding.

Thus, by using a mixed methods design the opportunity arises to ‘overcome the potential bias and sterility of a single-method approach’ (Hussey & Hussey 1997, p. 74) by collecting qualitative and quantitative data to enhance validity and reliability of research results (Denzin 1989). *Validity* is concerned with the ‘integrity of the conclusions that are generated from a piece of research’ (Bryman 2003, p. 30).
Specifically, a researcher needs to address the issue of authenticity of the cause and effect relationships (internal validity) and their generalisability to the external environment (external validity). External validity is also referred to as *reliability*, which is defined as the extent of generalisability of the results of a causal study or other settings, people or events (Cavana, Delahaye & Sekaran 2001; Punch 1998). *Generalisability* is ‘the degree to which the findings are applicable to other populations or samples, and draws on the degree to which the original data were representative of a larger population’ (Ryan and Bernard 2000, p.786). In other words, reliability ‘concerns the extent to which an experiment, test, or any measuring procedure yields the same results on repeated trials' (Carmines & Zeller 1979, p.11).

In adopting a mixed methods design, the study has drawn upon the generative research method (Sohal, Brown & Lu 1996). The next section further discusses the generative research method.

**The Generative Research Method**

According to Simon, Sohal & Brown (1996), using a generative research method avoids predetermined concepts and helps ‘obtain a clearer picture of reality and subscribe to the notion of “people's research”…the use of interviews allows the researchers to gain rich insights to issues which are normally amenable to questionnaires’ (Simon, Sohal & Brown 1996, p.3). The ideal-type generative research design formulated by Simon, Sohal & Brown (1996) is replicated in Figure 8.
As depicted in Figure 7, the *ideal* generative research method involves three phases. In phase 1, the researcher generates the crucial concepts and themes by using methods such as a literature review, participant observations and content analysis of relevant documents. Phase 2 requires the researcher to elaborate on the research topic through open-ended, non-standardised interviews. In phase 3, data is gathered by using both qualitative and quantitative data to formalise the study. Given the mixed use of both qualitative and quantitative method, it is argued that the generative research method does not conceptually contradict the mixed methods design, which involves both collecting and analysing quantitative and qualitative data to provide strengths that offset the weaknesses of both qualitative and quantitative research (Creswell & Plano Clark 2007), enables the researcher to reap the respective strengths from the two approaches (Bryman 2003; Burgess 1984) and provides ‘a broader or more complete understanding of the issues being investigated, as more than one instrument being used for data collection adds weight to the data gathered’ (Ticehurst & Veal 2000, p. 50).
However, Simon, Sohal & Brown (1996) suggest that the generative research method is not a static but a flexible approach to serving the nature of the research, as the method is ‘not a blueprint for every research investigation undertaken…where appropriate, one should tailor the method to meet particular circumstances’ (Simon, Sohal & Brown 1996, p. 34). Hence, this study has adapted the generative research method. This is further discussed in the next section.

Using the Generative Research Method for The Study
The generative research method as adapted for this study is shown in Figure 8.
Analysis of Phase 1 data and reviewed the relevant literature (particularly on mixed embeddedness) to further explain the Phase 2 findings. This process enabled the researcher to flesh out the research themes, developed the relevant propositions as per the Phase 1 finding and subsequently helped design the Phase 3 Study.

Phase 3 data further explained the propositions that were also explained in Phase 1 and Phase 2, and the propositions that were developed after conducting the Phase 2 study.

The researcher interpreted findings from all phases and presented the analyses in the Discussion chapter.

Figure 8: The Process of the Generative Research Method Adapted for the Study
As depicted in Figure 8, there are three phases to the generative research method adapted for the study. Starting from the left of Figure 8, it is the literature review that has established the basis of the relational governance model of family firms.\(^58\) The literature review generated crucial research themes\(^59\) and general, open-ended propositions (without indicating a causal relationship between variables), and in turn guided the development of subsequent phases of the study (such as the formation of interview schedules) to examine the research focus of this study. In pursuing this task, the literature review provides the opportunity for theory building, as it enables the researcher to move beyond predetermined views and develop a new perspective, such as applying the embeddedness literature to investigate the research problematic.

Each subsequent phase, both in terms of focus and design, has therefore been informed by the findings of the preceding phase. For example, research findings derived from the survey questionnaire in phase 2 assisted the researcher in developing the case studies in phase 3 and, in particular, triangulating the quantitative data (phase 2) with the qualitative findings from the case studies in phase 3. This form of triangulation is termed ‘between-method triangulation’, which is referred to as ‘the combination of multiple methods, data types and theories in the same investigation’ (Denzin 1970, p. 472). This triangulation is advantageous to researchers as it enhances the validity and credibility of the research project (Simon, Sohal & Brown 1996).

In conclusion, the generative research method is consistent with the complementarities of mixed methods design, in which researchers use different methods to ‘elaborate, enhance, and clarify the results of one method with the results of the other method’ (Seifert, Goodman, King, Baxter & Magolda 2010, p.251), and increase the interpretability and meaningfulness of the inquiry results by capitalising on inherent method strengths and counteracting inherent biases in methods (Greene, Caracelli & Graham 1989). The research method also enables

\(^{58}\) See Chapter 3, Figure 5, p. 94.

\(^{59}\) See Table 5, pp. 139-140 of this chapter; crucial research themes include (1) ‘Family Business – “family” and “business” as discussed largely in the Introduction and Chapter 1 and (2) Relational Governance as discussed in Chapter 2 and largely in Chapter 3.
each subsequent phase to provide additional details about the research question of this study, which subsequently and more effectively illustrate the role of relational governance in influencing family business and the ability of a family SME to achieve their economic and noneconomic goals. Having integrated a comprehensive literature review with the data collected from case studies and the survey questionnaire, the study generates evidence to inform the research problematic and the propositions. The next section further discusses the research design used in literature review, phase 1, phase 2 and phase 3.

**Aim of Literature Review Evaluation**

The literature review provides ‘an interpretation and synthesis of published research’ (Merriam 1988, p. 6). More importantly, the purpose of reviewing the literature should involve not only locating, reading and evaluating research reports but also analysing informed observation and views expressed by respondents (Borg & Gall 1989). As shown in Figure 8, a literature review was conducted prior to collecting qualitative (phase 1) and quantitative (phase 2) data. This aims to guide and inform the research with generated concepts and themes from the population, and provide a theoretical base for interpreting some exploratory findings emerged from different phases of this study.

Briefly, the research problematic of the study is exploratory to an extent that some concepts are relatively under-researched (e.g. embeddedness, relational governance of family SMEs). In particular the notion of embeddedness within the context of family business governance has not been discussed and empirically investigated previously. Hence, the in-depth interview was used in phase 1 of the study to generate findings to inform the research focus.

**Phase 1: In-depth Interviews (Qualitative)**

Interviewing is ‘a data collection method in which the researcher asks for information verbally from the respondents’ (Cavana, Delahaye & Sekaran 2001, p.458), with the aim being to ‘elicit the interviewee's information about a topic, rather than the interviewer creating them’ (Tharenou 1997, p. 39). Aligning with the exploratory design as discussed on page 127 of this chapter, in-depth interviews were used in phase 1 to seek interviewees’ views on a topic (i.e. relational governance in family firms) that is often explored as a preliminary stage of a study
in planning for the next study, such as a questionnaire-based survey (Veal 2005, p.128).

**Sampling - Phase 1**

Sampling provides ‘a means of data reduction by collecting data exclusively from a “subgroup”, rather than the entire population’ (Saunders, Lewis & Thornhill 2003, p. 150). Given the focus on family SMEs of this study, purposive sampling was used to select cases that best enabled the researcher to answer the research questions (Remenyi, Williams & Swartz 1998; Saunders, Lewis & Thornhill 2003). The researcher developed specified selection criteria for the participating family firms in phase 1 and phase 3. These were:

- Size: Small to Medium
- Industry: any
- The Family Management Unit (referring to those who are responsible for decision making on business strategies, long-term business plan): two or more family members involved in order to examine the relational aspect of governance
- Governance: ideally an equal number of family businesses with formal governance and without formal governance for further comparative analyses.

Participants for all research phases were recruited with the assistance of intermediary agencies, including the Family Business Australia of Western

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60 As mentioned in the Introduction to this study (p. 13), SMEs make up the majority of Australian family firms. According to the Australian Bureau of Statistics (2010), businesses that employ less than 200 employees are categorised as SMEs.

61 The industry effect is not the focus of the study. In addition, the accessibility of the privately held family firm sector defeats the possibility of researching family business from a specific industry sector.

62 As discussed in the Introduction (p. 13), key family members play dominant roles in owning and managing a family firm’s operation. Conducting interviews with family members (who are in the managerial positions) helps unravel the social dynamics of family firms, particularly how relational governance influences family business and the ability of family firms to achieve their goals.

63 While highlighting relational governance as an informal control mechanism, Chapter 3 also discusses the role played by formal governance (e.g. Board) in influencing the ability of family firms to achieve their intended goals. Investigation of family SMEs that adopt either informal or formal (or both) governance helps inform the social dynamics of family business governance.
Australia ('FBAWA'), Small Business Development Corporation ('SBDC') and Business Coaching Systems Western Australia ('BCSWA'). These agencies in turn contacted their members who might potentially qualify for the study as per the above criteria. The next section further discusses the participants profile in phase 1.

**Participants Profile – Phase 1**

As Table 3 and Table 4 show, the phase 1 study consists of five family SMEs from different industries with a total of seven interview participants in Western Australia. All interviews were conducted with the owner-managers and managers from the selected family firms during April 2008 and May 2008. Given the voluntary nature of the interviews, self-selection sampling occurred ‘when the proposed research was advertised through appropriate channels and data was collected from those who responded’ (Saunders, Lewis & Thornhill 2003, p. 177). The researcher subsequently contacted the participants and requested family members holding the position of owner-managers or managers to be interviewed. In all cases, the owner-managers agreed to be interviewed.

Before the interview, the participants were asked to complete a pre-interview questionnaire survey (see Appendix 1). The descriptive data gathered from this survey helps identify the demographic pattern of the participating firms. Table 3 below provides a profile summary of the participating family firms.

<table>
<thead>
<tr>
<th>Firm</th>
<th>Industry</th>
<th>Firm Size</th>
<th>Profitability</th>
<th>Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Retail</td>
<td>Small (5–19)</td>
<td>Positive</td>
<td>No Board</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>No formal family meeting</td>
</tr>
<tr>
<td>B</td>
<td>Property &amp; Business Services</td>
<td>Small (5–19)</td>
<td>Positive</td>
<td>No Board</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>No formal family meeting</td>
</tr>
<tr>
<td>C</td>
<td>Construction</td>
<td>Small (20–49)</td>
<td>Positive</td>
<td>No Board</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Formal business meeting</td>
</tr>
<tr>
<td>D</td>
<td>Agriculture</td>
<td>Small (20–49)</td>
<td>Positive</td>
<td>No Board</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Formal family meeting</td>
</tr>
</tbody>
</table>

64 All family firms participated in Phase 1 of the study are ‘family-owned and managed SMEs’.
E  Wholesale Trade  Medium (50–199)  Positive  ‘Board’ with 3 family members  Formal business meeting

To protect their anonymity, the firms’ names have been changed to pseudonyms, namely ‘A’, ‘B’, ‘C’, ‘D’ and ‘E’ (See Column 1, Table 3). Column 2 describes the industry. Column 3 identifies the size of the family firm, which is one of the selection criteria of phase 1 study. Column 4 indicates whether the family firms had been profitable for the past three years from 2005 to 2007 (at the time when the interviews were conducted in 2008). Column 5 describes the governance mechanism.

**How Were the Interviews Conducted?**

The semi-structured interviews were conducted with interviewees face-to-face at their meeting room or office. Face-to-face interviews allowed the researcher to generate a high response rate from the participants, and created the opportunity for more in-depth questioning. These interviews lasted approximately 75 to 90 minutes, depending on the participant’s openness and willingness to talk. As already indicated, all participants were requested to complete the pre-interview surveys (see Appendix 1).

Prior to the interview, an information sheet that highlighted the aim of the present study and a standard letter in relation to ensuring the confidentiality and anonymity of responses were also emailed to all the participants (see Appendix 2) before meeting with the interviewees. On the day of the interview, the researcher briefly explained the purpose of the study and encouraged the interviewees to ask questions. Before conducting the interviews, all interviewees were provided with consent forms, which stated that the interview was totally voluntary. Interviewees were also free to decline answering any questions or withdraw from the interview at any time.

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65 According to the Australian Bureau of Statistics (2013), a company employing less than 49 employees is categorised as ‘small-sized company’, and a company employing between 50 and 199 employees as ‘medium-sized company’.
As Table 4 shows, Column 1 identifies the family SMEs (in pseudonyms), Column 2 provides the organisational position of the participating interviewees and Column 3 indicates the owner/manager position.

Table 4: Profile of Interview Participants (Phase 1)

<table>
<thead>
<tr>
<th>Firm</th>
<th>Organisational Position</th>
<th>Owner/Manager Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Managing Director</td>
<td>Family owner-manager</td>
</tr>
<tr>
<td>B</td>
<td>Managing Director</td>
<td>Family owner-manager</td>
</tr>
<tr>
<td>B</td>
<td>Operation Manager</td>
<td>Family manager but not owner</td>
</tr>
<tr>
<td>C</td>
<td>Managing Director</td>
<td>Family owner-manager</td>
</tr>
<tr>
<td>D</td>
<td>Director</td>
<td>Family owner-manager</td>
</tr>
<tr>
<td>D</td>
<td>Director &amp; Account Manager</td>
<td>Family owner-manager</td>
</tr>
<tr>
<td>E</td>
<td>Managing Director</td>
<td>Family owner-manager</td>
</tr>
</tbody>
</table>

A semi-structured interview method was used in all the interviews. A semi-structured interview guide or schedule enables the interviewer to either adapt or ask additional questions, thus providing optimal flexibility to explore the topic. As Corbetta (2003, p. 270) states:

‘The order in which the various topics are dealt with and the wording of the questions are left to the interviewer’s discretion…within each topic; the interviewer is free to conduct the conversation as he thinks fit…to give explanation and ask for clarification if the answer is not clear’.

Probing was used during the interview process, as it helped ‘explore new paths which were not initially considered’ (Gray 2004, p. 217), and it seemed necessary in situations where respondents began to ramble or lose track of the question. In this case, the interviewer should avoid suggesting that a particular response was acceptable or unacceptable, and in other words, maintain a neutral role during the interviewing process (Zikmund 2003). This in turn allowed the researcher to prompt and probe deeper by asking more detailed questions of respondents’ situations, without strictly adhering to the interview schedule, and solicited additional information about the interviewees. Interviewees were also encouraged to raise questions and provide opinions on any semi-structured questions, which
also enabled the researcher to develop relevant lines of questions, and in turn enhanced the empirical evidence derived from the interviews.

The use of visual aids during the interview process also helped facilitate the opportunity for the interviewer to adapt the questions as necessary, clarify doubt, ensure interviewees’ proper understanding of questions, and pick up non-verbal cues such as discomfort or problems from the respondents (Cavana, Delahaye & Sekaran 2001). For example, when discussing the organisational structure and culture, some participants provided relevant information such as the organisational chart and code of conduct for further explanation during the interviews.

In addition, all participants were ensured that data and information they provided during the interviews would be kept anonymously and confidentially. Yin (2003) suggested that audiotapes provided a more accurate rendition of any interview than any other method. However, the researcher used tape-recording only with the consent of interviewees. Consent of recording the interview was therefore asked before the interview proceeded (see Appendix 3). All participants were informed that tape-recording was for transcription purposes only. None of the participants declined to be tape-recorded.

The Interview Schedule – Phase 1

As mentioned in the previous section, a pre-specified interview schedule was formulated and sent to participants prior to the interview (see Appendix 4). This interview schedule consists of semi-structured questions around the issues of relational governance of a family firm, decision making and how family business governance may influence the ability of family firms to achieve their economic and noneconomic goals. Despite the semi-structured nature of the interview, the interview schedule was mainly used as a guide to conversations (rather than structured queries) and for probing when required, as the interviewee had the option of skipping any questions if they felt uneasy with the issues being raised. This was particularly applicable to the participant who took a proactive stance to share information with the researcher. Throughout the interview process, the researcher followed a consistent line of inquiry in an open-ended, friendly and non-threatening manner.
To facilitate comprehension, abstractions were avoided in the interview schedule. Care was taken to provide a standard and alternative wording for the complex questions. The researcher pilot-tested the interview schedule before interviewing the research participants. In particular, the interview schedule was tested with five individuals from different working backgrounds. Three of these were the owners and managers of family firms. One of these was an accountant working for an international-based accounting firm, and another was a management consultant working for a medium-sized consulting firm. They were not research participants in phase 1 of the study. Feedback from the pilot tests enabled the researcher to ensure the questions were not discriminatory, irrelevant or posing a potential invasion of privacy. Overall, the purpose of pilot testing was to refine the interview schedule (Saunders, Lewis & Thornhill 2003).

The questions used in the interview schedule were formulated after surveying the literature presented in Chapters 1, 2 and 3, and confirmed after conducting a pilot test. This is in keeping with the generative research method, whereby each stage of research is informed by the preceding phases.

Table 5 summarises the sections of interview schedule and the issues investigated in each section. The interview schedule was formatted to ‘warm up’ the participants by asking general questions in the first section, followed by questions aimed at eliciting more detailed content (Saunders, Lewis & Thornhill 2003). Table 5 also highlights the attempt to ‘cross check’ participants’ responses by using the same questions to ascertain propositions 1, 2, 3 and 4.

<table>
<thead>
<tr>
<th>Interview Schedule Sections</th>
<th>Issues Investigated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Section A: Family Business—‘Family’ and ‘Business’</td>
<td>General information about the family firm’s values and history. Guiding principles for the family business (to contextualise the sub-systems of ‘family’, ‘business’ and ‘individuals’).</td>
</tr>
</tbody>
</table>
| Section B: Relational Governance | Propositions 1, 2 and 3 of the Relational Governance Model, such as the relationship between:  
| |  
| | - the size of the family management unit and social interaction  
| | - family institutions and social interaction  
| | - social interaction and shared vision  
| Section C: How Relational Governance influences family business and the ability of a family SME to achieve their economic and noneconomic goals | Proposition 4 questions how relational governance influences family business and the ability of a family SME to achieve their economic and noneconomic goals. |

In Section A, the interviewees were asked to comment on the meaning of family business, particularly about issues of a family firm’s identity and values. Issues with respect to the concept of social capital were further addressed in Section B and Section C of the interview schedule. Issues of relational governance and the ability of family firms to achieve their intended goals were further explored. Some sample questions were:

- Identify the person(s)/groups/family unit participating in making key strategic decisions.
- How close are the family members within the family management unit?
- How often do you meet up or visit each other?
- Describe any shared vision among members of the family management unit.

The participants were also asked to identify the business challenges they encountered with. The participants’ inputs in this semi-structured discussion were useful in eliciting exploratory issues, such as the greatest challenges they encountered and how family business governance can be influenced by the firm’s embedded business environment. Some sample questions were:

- Under what circumstances do you choose informal/formal meetings for important business decisions?
• Describe how important business decisions are usually made.
• How do you and your management team make decisions when facing business challenges?

These questions eventually elicited discussion about the effect of the external business environment on family firm governance. Findings in phase 1 were further explored and investigated in the survey questionnaire in phase 2 and case studies in phase 3. The next section discusses issues about qualitative data analysis.

**Qualitative Data Analysis**

After the preliminary stage of transcribing the interviews, data analysis was conducted. Saunders, Lewis & Thornhill (2003) argue that there is no standardised approach to the analysis of qualitative data. Notwithstanding this, these authors developed a three-stage process of data analysis: identifying categories, utilising data and recognising relationships.

**Identifying Categories**

According to Saunders, Lewis & Thornhill (2003), categories can be identified based on terms emerging from data, the actual terms used by research participants, or terms used in existing theory and literature. The initial categories that were used to structure the interview schedule were mainly based on the issues the researcher intended to discuss with the participants. As shown in Table 5 (see pages 139-140), the interview schedule consists of three sections informing relational governance and the ability of family firms to achieve their economic and noneconomic goals. When sorting through the individual responses, all the categories were retained (see Appendix 4). These categories were further used to formulate the presentation and discussion of the research findings (see Chapters 5, 6 and 7).

**Utilising Data**

Utilising data is a process of coding (Punch 1998), which involves ‘attaching relevant parts of data to the appropriate category or categories’ (Saunders, Lewis & Thornhill 2003, p. 381). According to Punch (1998, pp. 204–205), coding *labels* the data by ‘providing a means for its storage and retrieval’, and *categorises* the data by ‘assigning meaning to particular pieces’. The computer software NVivo serves this
purpose by reviewing the transcripts and highlighting material of interest. NVivo assists in coding the material to either one or multiple categories, with a link to the relevant section (Richards 2005).

**Recognising Relationships**

After coding the data, relationships and patterns in the rearranged data emerge. The aim is to provide the ‘big picture’ by identifying relationships and patterns, while simultaneously recognising counter-instances and complexity (Richards 2005). In addition, the researcher needs to subdivide and integrate categories to refine the analysis in order to recognise relationships (Saunders, Lewis & Thornhill 2003). In particular, the researcher can identify relationships by comparing data with patterns within and across categories. This leads to the exploration of themes that are linked together. This in turn describes or analyses the research collectively (Rubin & Rubin 1995). According to Rubin & Rubin (1995), these interactive processes of analyses or organisation assist in developing an ‘integrated explanation’ of the data. This approach is used when analysing qualitative findings in phase 1.

**Using Leximancer Analytics Tool**

The study has also drawn on the text analytics tool Leximancer to analyse the interview transcripts of phases 1 and 3. There is a growing interest by researcher in computer-assisted qualitative data analysis (CAQDAS) such as Leximancer because the analysis is considered to be more rigorous, systematic and comprehensive (Bloor & Wood 2006). The tool has also been successfully applied in literature reviews and understanding attitudes and behaviours (e.g. Stockwell, Colomb, Smith & Wiles 2009; Cretchley, Gallois, Chenery & Smith 2010; Caspersz, Olaru & Smith 2012).

Leximancer uses mathematical algorithms to determine the most frequently occurring themes within the text, and rank these concepts based on word frequency and co-occurrence use. By drawing on algorithms of words, Leximancer reduces subjectivity in manual coding, as it eliminates the need for coder training and testing for inter-coder reliability (Smith & Humphreys 2006).

Particularly, Leximancer enables the researcher to extract the most important concepts from text segments, establishes the co-occurrence of concepts within the
text and deriving a semantic network; measures similarity between concepts and clustering them; and presents the information on a topical map (which resembles a conceptual map). Leximancer also arranges the concepts according to the similarity and in turn forms and diagrammatises the concepts groups, or also referred to as themes. The themes that emerge appear as circles on a topical map. The function provided by Leximancer is similar to concept mapping, which is a structured method for translating complex qualitative data into a pictorial form, displaying the interrelationships among ideas in an easy-to-understand manner (Shorkey, Windsor & Spence 2009b; Trochim, Cook & Setze 1994; Windsor 2013).

In reading the Leximancer's conceptual map, there are four elements that represent clues for interpretation. First, Leximancer depicts the concepts or themes in 'circles' on a conceptual map and 'heat-maps' these by colour. For example, concepts coloured in red and orange represent the most relevant ones and concepts in cool colours such as blue are the least relevant. The same colour-coding is also applied to themes, with the central and most connected themes in warm colours and the peripheral ones in cool colours. Additionally, the size of the circles indicates the relative importance of the themes. The descriptors or words and compound concepts located in them indicate the frequency of the themes in the participants' discourse. Second, location and the relative distance of the concepts suggest the strength of relationships between the concepts. That is, the closer the concepts they are to each other, the stronger relationships they have to each other. Third, the density and distribution of concepts within a theme indicates support of the significance of the theme and its associated aspect(s). Finally, researchers should examine links and paths between concepts. The grey lines represent the most common connections that appear in the text.

In this study, the Leximancer's conceptual map captures a framework illustrating the family owners and manager's view on relational governance, and how it influences family business and the ability of family firms to achieve their intended goals. The analysis and interpretation of phase 1 and phase 3 findings were presented respectively in Chapter 5 and Chapter 7. The researcher is conscious that several conditions for analysis may influence the results, such as the number of sentences analysed per segment, and the seeding of the analysis with manually constructed concepts. However, researcher interference can be reduced by drawing
on words generated in an un-seeded (or first-cut) analysis to develop these constructed concepts. The analysis using Leximancer was conducted multiple times as a check for the stability of the maps, and the interviewer’s questions (as listed in the interview schedule) were deleted from the text to minimise pollution in the analysis. While Leximancer maps have been reproduced to support the discussion of findings, the researcher has also drawn on the transcript quotes generated by the Leximancer analysis that appeared with the themes to represent the richness of the findings.

**Phase 1 Finding to Inform Phase 2 (Survey Questionnaire)**

The phase 1 finding clarifies the concept of relational governance as described in the study (see Chapter 3, Figure 6, page 120). In addition, the findings highlight the influence of embeddedness on the ability of family firms to meet their economic and noneconomic goals. Following a further literature review, proposition 7 was subsequently formulated. Appropriate items to assess this were developed and included in the survey questionnaire that was administered in Phase 2. The phase 1 findings were used to inform the development of the survey questionnaire, which is further discussed in the next section.

**Phase 2: Survey Questionnaire (Quantitative)**

A survey questionnaire is used as a quantitative data collection mechanism to test the initial theoretical framework among a wider audience. A questionnaire is defined as ‘a pre-formulated written set of questions to which respondents recorded their answers, usually within closely defined alternatives’ (Cavana, Delahaye & Sekaran 2001, p. 226), and allows the business researcher to progress from gathering ideas and suggestions of a few people at the qualitative stage and to confirm whether the ideas and suggestions are widely held throughout the target population. In this study, a survey questionnaire was used to extend the breadth and range of inquiry given the emergence of unexpected results that lead to the formulation of proposition 7.

The present study distributed both mail questionnaires and electronic questionnaires to the target population within a three-month period from

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67 Proposition 7: Economic and institutional (mixed) embeddedness influence family business governance and the ability of family firms to achieve their economic and noneconomic goals.
September to November 2008. The main advantage of both types of questionnaire is their capacity to overcome barriers of geographical distance. Research costs (for example, travel and accommodation costs, international telephone rates) are not applicable to both data collection tools. Online questionnaire surveys are easily designed and administered when the researcher has the technical support to facilitate the survey’s preparation and administration. However, the return rates of mail questionnaires are usually low, unless individuals have an interest in the research topic (and therefore are more likely to respond) (Zikmund 2003). Low return rates also create difficulties in establishing the representativeness of the sample (Cavana, Delahaye & Sekaran 2001). In addition, using a mail questionnaire limits the opportunity to correct ambiguities, probe for additional information, or clarify any misunderstanding a respondent might have experienced (Cavana, Delahaye & Sekaran 2001). Pre-testing the questionnaire is therefore critical in avoiding these problems and ensuring the validity of collected data.

The following sections discuss the stages involved in developing the survey questionnaire. These include sample selection, the sample characteristics, questionnaire design, pre-testing of the survey instrument, development of survey items, the administration of the survey and quantitative data analysis.

The Selection and Characteristics of the Sample

Prior to the present study, no adequate database was available about Western Australian family firms, particularly SMEs. The original plan was to distribute the mail questionnaire to the mailing lists of all intermediary agencies already identified (i.e. FBAWA, SBDC). During the research process, contact was made with the Chamber of Commerce and Industry Western Australia (‘CCIWA’) and Coastal Business Centre (‘CBC’). Eventually, only FBAWA, SBDC and CCIWA agreed to distribute the questionnaires by accessing their mailing lists.

Prior to survey dissemination, the researcher attempted to identify the potential size of the sample group, which could include members of FBAWA (93 accessible members), SBDC (more than 4,000 members) and CCIWA (around 9,000 members). However, neither SBDC nor CCIWA has members categorised as ‘family business’. Given the limited information available on both the databases of SBDC and CCIWA, the researcher could not identify who and how many SBDC
and CCIWA members are family businesses. To overcome this, the researchers had added a question on the first page of the survey questionnaire, which asked the respondent to provide a ‘yes’ or ‘no’ answer to the study definition of family business. This survey particularly targeted potential respondents who were the top-level managers, owner-managers or key decision makers of a family firm.

Surveys were consequently sent to all FBAWA members, SBDC members and CCIWA members. Eventually, a total of 52 responses were considered usable and defines the sample size of survey questionnaire of the study. Table 6 summarises the number of total responses received from each organisation and the reasons to explain the final number of usable responses.

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Number of Survey Responses Received</th>
<th>Number of Usable Survey Responses</th>
<th>Reasons</th>
</tr>
</thead>
<tbody>
<tr>
<td>CCIWA</td>
<td>None</td>
<td>None</td>
<td>Members may not be interested in completing the survey.</td>
</tr>
<tr>
<td>FBAWA</td>
<td>34</td>
<td>34</td>
<td>Although FBAWA had 93 accessible members at the time of conducting the phase 2 study, only 34 members had completed and returned the survey.</td>
</tr>
<tr>
<td>SBDC</td>
<td>59</td>
<td>18</td>
<td>41 responses were considered unusable. It is because first, there was a substantial amount of missing data from these responses. Second, the responses were irrelevant as respondents indicated that they are the only individual in the top management team (it seems that they may be self-employed), hence defeating the purpose of understanding the social relations between family members in the relational governance context.</td>
</tr>
</tbody>
</table>
Survey Questionnaire Design

The survey questionnaire (see Appendix 5) was constructed from the recurring themes and issues generated by the literature review and phase 1 finding. It was designed to examine the issues associated with the original conceptual framework of this study (i.e. Figure 6). The survey instrument was also used to gather quantitative data for the exploratory finding from phase 1, particularly in informing the relationship between relational governance, family business governance and the external business environment.

The questionnaire is highly standardised and the questions are structured. Jargon and technical terms are avoided with the intent of minimising respondents’ confusion on the questions, and the questions asked and the language used are considered appropriate with the aim of tapping ‘respondents’ attitudes, perceptions and feelings’ (Cavana, Delahaye & Sekaran 2001, p. 229).

Pre-Testing of the Survey Questionnaire

To avoid bias in questions, the questionnaire was pre-tested with five family firms of Western Australia prior to broader distribution. As Zikmund (2003) recommends, a pre-test with a group of respondents serves the purpose of detecting ambiguity or bias in the questions, the questionnaire design or instructions for completion. Lack of connections with a wider family business community of Western Australia limited the number of pre-testing. However, these five pre-tests were justified, as the research criteria for choosing the respondents were consistent as those in the interview in phase 1. Pre-testing firms were selected from family firms associated with FBAWA.

The response rate for the pre-test was 100 per cent. As Babbie (1990, p. 182) explains, ‘A response rate of at least 50% is generally considered adequate for analysis and reporting. A response rate of at least 60% is good and a response rate of 70% or more is very good’.

Overall there were no major changes in the contents and questions of the questionnaire. Pre-testing firms responded positively after completing the questionnaires. The respondents also provided feedback on the length of the
questionnaire. As a result, it was adjusted to double-sided printing, thereby making the questionnaire appear less intimidating for respondents to complete.

The sequence of the questions went from questions that were relatively easy to answer and understand, to those that were progressively more difficult and thought provoking. This is what Festinger & Katz (1966) referred to as the ‘funnel approach’. In particular, ‘warming-up’ questions about the company, the industry, the respondent’s profile and management experience were placed at the beginning of the survey. These questions were designed to ease the respondents, and no offensive or sensitive questions were included in the whole questionnaire.

The questionnaire also included both open-ended questions and closed questions. Open-ended questions are defined as ‘questions that allowed the respondents to answer in any way they chose’, and closed questions are questions that ‘asked the respondents to make choices among a set of alternatives given by the researcher’ (Cavana, Delahaye & Sekaran 2001, p. 229). Two main open-ended questions were included in the survey questionnaire: the respondent’s reasons for the absence or presence of a board of directors, and their explanation of why there were no potential family successors at the time of responding to the survey. The remaining questions were all closed questions asking about the background information of the respondent (e.g. their company position, type of management and ownership structure, number of full-time employees) and their opinions about the research topic.

The survey instrument had also asked questions about relational governance (such as social interaction among members of the family management unit, the owning family manager’s involvement in the firm, the governance process to guide family relationships and behaviour in the business; any family council or family code which helped facilitate discussion/resolution of challenging issues); strategic decision making (such as the availability of written business/strategic plan); succession planning; and business continuity (such as the owning-family’s plan for the business to remain ‘in the family’).
**Questions in the Survey Questionnaire**

As shown in Appendix 5, the survey questionnaire consists of four parts of questions. Table 7 below indicates the types and purpose of the questions asked in each section.

### Table 7: Survey Questionnaire: Questions Investigated

<table>
<thead>
<tr>
<th>Questionnaire Sections</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Part 1: Personal Data</td>
<td>To gather demographic information of a family firm’s key decision maker.</td>
</tr>
<tr>
<td>Part 2: General Information of the Firm &amp; the Management Team</td>
<td>To gather background information of a family firm (e.g. numbers of full-time employees in the firm, industry)</td>
</tr>
<tr>
<td>Part 3: Business Practices</td>
<td>To collect information about the respondent’s view on issues associated with relational governance, strategic decision making, strategic planning, responses to business environment and recent business activities.</td>
</tr>
<tr>
<td>Part 4: Business Performance and Firm Sustainability</td>
<td>To collect information about the respondent’s view on issues associated with business growth over the past three years, succession planning, business performance against competitors, business environment and business priority.</td>
</tr>
<tr>
<td>Section for Family Firms ONLY(^{68})</td>
<td>To collect information about the family firm’s view on issues about succession, business practices and strategic decision making.</td>
</tr>
</tbody>
</table>

As summarised in Table 7, Part 1 and Part 2 of the survey questionnaire asked the demographic questions that dealt with the personal and social characteristics such as age, personal title and years involved in the firm. These questions also aimed to

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\(^{68}\) As previously discussed on page 146, both SBDC and CCIWA did not have members categorised as ‘family business’. The respondent therefore was asked to provide a ‘yes’ or ‘no’ question to a study definition of family business. For firms that answered ‘no’ on the given definition, data was not used for further analysis, and the respondents did not need to continue on the section titled ‘For Family Firms ONLY’ in the survey.
unravel the family firm’s characteristics, such as the numbers of employees, type of industry, percentage of growth over the past three years (2005–2007), ownership type, the total number of people in the top management team, the existence or absence of Board, and the documentation of succession plan (see Appendix 5: ‘The Survey Questionnaire’ for more detail).

In Part 3, questions consisted of the respondent’s opinions about social interaction, shared vision, strategic decision and planning, strategies in response to business environment and recent business activities. In Part 4, the questions further explored issues as identified by the literature review and the phase 1 finding. These included the aspects of business environment, business priority and business performance. The questionnaire also included a ‘For Family Firms ONLY’ section, which particularly targeted multi-generation family firms. Questions in this section also dealt with the management’s view on the use of family institutions.

Given the lack of empirical attention in the past to this exploratory research topic, all questions used in this study were conceptually developed from a variety of previous research studies and the findings in phase 1. Sources for sample questions are detailed below.

Questions about social interaction, family institutions and shared vision of family firms were adapted from previous research on relational governance by Mustakallio, Autio & Zahra (2002). For instance:

- The family very often (i.e. daily) uses informal family meetings (such as dinner, informal get-togethers) to discuss and resolve business matters.
- We visit or see each other almost every day.
- We share the same vision about our company’s goal.

The ‘Strategic Decision and Planning’ questions were developed from Adendorff et al. (2005), Mustakallio, Autio & Zahra (2002), Leana & Van Buren (1999), Bjuggren & Sund (2000) and Bourgeois & Eisenhardt (1988). For instance:
• The CEO/manager-owner always makes the final decision before business action is taken.
• We have strong commitment to, and hold each other responsible for decisions that we have made.
• We control the strategic focus of the family’s joint interest.

The ‘succession planning’ questions are adapted from Corbetta & Montemerlo (1999), Cabrera-Suarez, De Saa-Perez & Garcia-Almeida (2001) and Chua, Chrisman & Sharma (1999). For instance:

• We have family members of younger generations involved actively in succession planning.
• The current family member CEO will retire in the next 5–10 years.

The questions in ‘Part 4: Business Performance and Firm Sustainability’ are conceptually adapted from the works of Bourgeois & Eisenhardt (1988), Miller & Friesen (1982), Wiklund & Shepherd (2003). For instance:

• Our business environment is unpredictable and competitive.
• The environment causes a great threat to the survival of our firm.
• Scarce supply of labour/material is a great threat to us.

Appendix 5 indicates all the questions that were asked in each section of the survey questionnaire.

The Likert Scale comprising a 1 to 5 point rating scale was used extensively in the questionnaire. Many researchers used items with 5 point rating scales (Cavana, Delahaye & Sekaran 2001), which were adopted to indicate the attitude of respondents by rating how strongly they agreed or disagreed with the statements. Despite the lack of precedents and previous examples for reference, the survey questionnaire was considered reliable as the reliability coefficients obtained from all constructs was above 0.7.
How Was the Survey Administered?

The surveys were administered by first distributing them to the target audience. A covering letter with a brief summary of this study’s aim and purpose was attached with the mailed questionnaire (see Appendix 5). As suggested by the officers of SBDC and CCIWA, the same covering letter was converted into a pdf format document that was accessible through a URL link shown on the first page of the online survey. The letter also informed the potential respondents that all collected data would be treated as confidential with no individual or organisation being identified.

After distributing the questionnaires, timely follow-up reminders were sent out by authorised personnel of FBAWA, SBDC and CCIWA via email. Babbie (1990, p. 180) explains that follow-up mailings is ‘an effective method for increasing return rates in mail surveys. In general, the longer potential respondents delay the less likely they are to reply at all’. As Cavana, Delahaye & Sekaran (2001, p. 240) recommend, sending follow-up letters provides with self-addressed stamped return envelopes are helpful to ‘improve the rates of response to mail questionnaire’. As summarised in Table 6, 93 mail surveys were sent to FBAWA members with the prepaid returned envelopes. After a three-month data collection period, 34 mail responses were received from the FBA. The response rate for the FBAWA respondents was 36.6 per cent. Cavana, Delahaye & Sekaran (2001) stated that 30 per cent of response rate was generally acceptable.

On the other hand, SBDC and CCIWA distributed the online survey by attaching the survey’s URL link to their organisations’ weekly e-newsletters. Both organisations declined to send direct emails to inform their members about this online questionnaire due to their respective confidentiality policies. Two reminders were sent by each organisation within the three-month data collection period. Eventually 18 responses from SBDC (and none from CCIWA) were considered usable for this study (see Table 6, p. 146).

Quantitative Data Analysis

Descriptive analysis, Exploratory Factor Analysis (‘EFA’) and correlation analysis were used for quantitative data analyses. These analyses were conducted using SPSS Windows (Version 16). All the questions were coded into numeric form to
enable the use of descriptive and analytical techniques. EFA enabled the uncovering of a set of variables related to the dimensions of relational governance and the top manager’s view of business environment. In particular, factor analysis assisted in developing a measure to tap the concepts of each construct and provide more accurate operational definitions. Correlation analysis was used to describe the strength and direction of the linear relationship between two variables.

Given the exploratory nature of this study, it is critical to conduct an EFA. EFA is useful in developing measures of the constructs and searching for structure among a set of variables (Hair et al. 1998). This serves the purpose of exploring how relational governance influences family business and the ability of family firms to achieve their economic and noneconomic goals, as well as the contextualisation of the business environment of family SMEs.

The researcher is aware of the implications of the relatively small sample size (n = 52; 34 from FBAWA and 18 from SBDC). This however surpasses the requirement of Hair et al. (1998), who suggest that there needs to be at least 50 to conduct a factor analysis, with 100 or above being preferable. Hence, other statistical tools were not applicable to this study for data analysis, such as multi-regression analysis and the Structural Equation Modelling (‘SEM’), which requires a critical sample size of 200 (Garver & Mentzer 1999; Hoetler 1983).

**Survey Findings: Informing Phase 3 (Case Study)**

Results from the correlation matrix (presented in Chapter 6) generally support the literature and the research findings in phase 1. The survey findings further illustrate the push-pull tension that family business faces in developing appropriate governance responses: that is, the push of relational governance combined with the pull from the external social and economic environment which can result in the formalising of governance structures (for example, formal business meetings).

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69 Tabachnick & Fidell (2007, p.123) provide a formula for calculating sample size requirements of multiple regression analysis, taking into account the number of independent variables that a researcher may use: N > 50+8m (where m= number of independent variables (Pallant 2009)). As there is more than one independent variable in the study, a minimum of 59 cases will be needed (which is larger than the usable sample size of this study).

70 See Chapter 6, pp. 243-248; ‘Professionalising Governance in Family Business’. 

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Following further review of the embeddedness and social capital literature propositions 5, 6, 8 and 9 were formulated. The next section discusses the case study method that was used to further explore the conceptual framework of the study.

**Phase 3: Case Study (Qualitative)**

A case study is defined as ‘an empirical enquiry that investigates a contemporary phenomenon with its real life context, when the boundaries between phenomenon and context are not clearly evident, and in which multiple sources of evidence are used’. (Remenyi, Williams & Swartz 1998, p. 165), and requires ‘a detailed investigation, often with data collected over a period of time, of one or more organisations, with a view of providing an analysis of the context and processes involved in the phenomenon under study’ (Hartley 1994, p. 208). Presumably, the objective of the case study is based on theoretical propositions, which reflect the existing literature review, a set of research questions, and new hypotheses or propositions (Yin 2003, p.111).

With the aid of multiple sources of evidence, a case study can be used to examine a contemporary phenomenon within its real-life context (Yin 1989). It has been increasingly used as a research tool (see e.g. Yin 2003) and an essential form of research in social science and management (Chetty 1996).

Case studies are also flexible to exploratory themes and descriptions, as it is less bound and restricted by a priori categories (eds Symon & Cassell 1998), thus enabling the researcher to discover some new theoretical grounds, such as the effect of relational governance on the formation of formal governance. Hence, a case study method is considered particularly helpful to satisfy the ‘how’ question

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71 Proposition 5: In family firms, there is a relationship between social (structural and relational) embeddedness and relational governance.

Proposition 6: In family firms, social (structural and relational) embeddedness influences the business-to-business relationship, which in turn influences family business governance and the ability of family firms to achieve their economic and noneconomic goals?

Proposition 8: There is a relationship between relational governance and formal governance in family firms.

Proposition 9: Formal governance influences the ability of family firms to achieve their economic and noneconomic goals.
because it allows the possibility to formulate new propositions, validates the existing ones or alters them as the research proceeds (Yin 2003).

More importantly, a case study method is critical to the final phase of this study, as it serves the purpose of informing the phase 2 findings and hence the theoretical framework of this study.\(^{72}\) As depicted in Figure 8 (page 131), in phase 3 of the generative research method, case studies were adopted as a qualitative data production vehicle to consolidate the research findings from the preceding stages (i.e. in-depth interview and survey questionnaire). This helped further explore the propositions and theories developed from each subsequent phase against the research findings from practices of individuals, as in this case, managers and/or owners of family firms.

![](Figure 8)

Briefly, the selected case study needs to answer the ‘why’ and ‘how’ questions (Chetty 1996; Eisenhardt 1989) by producing qualitative data through in-depth interviews. Case studies are deemed appropriate to deal with operational links among a variety of variables and constructs that are investigated over time. The next section further discusses the different types of case studies.

**Types of Case Studies**

There are various types of case studies. One type is the *instrumental* case study, which aims to ‘examine a single case study to develop further insight or refine theory’ (Punch 1998, p. 152). Another type is the *collective* or *comparative* case study, which adopts a multiple-case study design to facilitate analysis both within and across cases (Punch 1998). Punch (1998, p. 152) further argues that this case study method is particularly suited to ‘learning more about a phenomenon or general condition’.

This study used a *comparative* case study method. When designing case studies, a researcher must clearly define a study’s questions, its position, unit of analysis, the logic linking, the data to the propositions and the criteria for interpreting the findings (Yin 2003). Each selected family firm constitutes a separate case study and the unit of analysis is the family management unit. Interview questions for the cases

\(^{72}\) See Chapter 3, Figure 6, p. 120.
in phase 3 were developed based on the preceding stages of research (i.e. the existing literature, the findings of phase 1 and phase 2).

Eventually a comparison of twelve case studies was undertaken. These cases provide an account of the managers ‘directing’ their firms, thus allowing more in-depth explanation of the propositions. These cases have, in combination, provided evidence to explain the research results of phase 1 and phase 2, but also provided new insight for the direction of future research and subsequently led to the revision of the original conceptual framework (see Figure 6) and the development of the final conceptual framework (see Figure 24 in the Discussion chapter). Hence, this comparative method was deemed appropriate.

The case study method also assists in addressing the criteria of triangulation by using multiple data sources and methods to check the integrity of the inferences one could draw upon (Schwandt 1997). According to Schwandt (1997, p. 163), data triangulation creates the opportunity to examine ‘a single social phenomenon from more than one vantage point’. The use of multiple-case studies allows a researcher to apply the replication logic, which suggests that the original findings from the selected cases can either predict similar results (a literal replication), or contrast results but for predictable reasons (a theoretical replication) (Yin 2003).

The issue of replication logic is considered in the present study. On the one hand, replication logic applied in the survey suggests that the resulting data reflects the entire universe or pool with the use of a statistical procedure to select a specific subset of respondents. On the other hand, replication logic that is applied in the case study allows the researcher to study the selected empirical cases and their relationships with theoretical propositions.

Briefly, the flexible nature of the generative research method facilitates the use of a case study method for an in-depth exploration of how relational governance influences family business and the ability of family firms to achieve their economic and noneconomic goals. The following sections discuss issues for the case study. These include the participant’s selection, the characteristics of the participants, the development of the interview schedule, data analysis and how the case study formalises the final conceptual framework of the study.
Case Study in Phase 3 — What is the Sample?

Yin (2003) states that convenience, accessibility and geographic proximity are the main selection criteria of the case study. Thus, family firms from the metropolitan area of Western Australia were subsequently selected for phase 3 of this study. Specifically, purposive sampling was used, and the twelve family firms that agreed to participate were chosen against the same selection criteria that applied in phase 1. Interviews with these family firms' owner-managers were undertaken during August and October 2009. These case studies provided ‘rich and complex qualitative data that are helpful in building theory and identifying possible causal influences’ (Miceli, Near & Dworkin 2008, p. 28). Interviews were conducted with twelve family firms with a total of sixteen participants. Table 8 below provides the profile of the participating companies.

Table 8: Profile of the Phase 3 Participated Companies (n = 12)

<table>
<thead>
<tr>
<th>Firm</th>
<th>Industry</th>
<th>Year Founded</th>
<th>Firm Size</th>
<th>% of Growth</th>
<th>Formal Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>OW</td>
<td>Retail</td>
<td>1981</td>
<td>Small (1–4)</td>
<td>&lt;24%</td>
<td>No Board</td>
</tr>
<tr>
<td>HS</td>
<td>Construction</td>
<td>1997</td>
<td>Small (5–19)</td>
<td>25–49%</td>
<td>No Board Informal family meeting</td>
</tr>
<tr>
<td>AM</td>
<td>Other (software)</td>
<td>2001</td>
<td>Small (5–19)</td>
<td>&lt;24%</td>
<td>No Board Formal business meeting</td>
</tr>
<tr>
<td>QM</td>
<td>Communications</td>
<td>1992</td>
<td>Small (5–19)</td>
<td>&lt;24%</td>
<td>No Board Informal family meeting</td>
</tr>
<tr>
<td>HD</td>
<td>Retail Transport &amp; Storage</td>
<td>1994</td>
<td>Small (20–49)</td>
<td>25–49%</td>
<td>‘Board’ with 4 family members</td>
</tr>
</tbody>
</table>

73 See p. 134 of this chapter.

74 All family firms are ‘family-owned and managed’.

75 Firm size is referred to as the number of full-time employees employed. According to the Australian Bureau of Statistics (2013), a firm employed less than 49 employees is ‘small’ and with 50–199 employees is ‘medium’.
<table>
<thead>
<tr>
<th>AT</th>
<th>Wholesale Trade</th>
<th>1985</th>
<th>Small (20–49)</th>
<th>&lt;24%</th>
<th>No Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>LC</td>
<td>Agriculture, Forestry, Fishing</td>
<td>1988</td>
<td>Small (20–49)</td>
<td>&lt;24%</td>
<td>No Board</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Informal business meeting</td>
</tr>
<tr>
<td>FR</td>
<td>Manufacturing Retail Wholesale trade</td>
<td>1974</td>
<td>Small (20–49)</td>
<td>&lt;24%</td>
<td>No Board</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Formal business meeting</td>
</tr>
<tr>
<td>LI</td>
<td>Property &amp; Business Services</td>
<td>1969</td>
<td>Small (20–49)</td>
<td>&lt;24%</td>
<td>Board with external professionals</td>
</tr>
<tr>
<td>WO</td>
<td>Manufacturing</td>
<td>1980</td>
<td>Medium (50–199)</td>
<td>50–74%</td>
<td>Board with 4 family members</td>
</tr>
<tr>
<td>MC</td>
<td>Construction</td>
<td>1968</td>
<td>Medium (50–199)</td>
<td>&lt;24%</td>
<td>Board with external professionals</td>
</tr>
<tr>
<td>AP</td>
<td>Construction</td>
<td>2003</td>
<td>Medium (50–199)</td>
<td>75–100%</td>
<td>No board</td>
</tr>
</tbody>
</table>

As Table 8 shows, Column 1 identifies the participated family firms. To protect anonymity of the firms and the participants, the firms’ names have been changed to pseudonyms. Column 2 outlines the industry. Column 3 describes the year the firm was founded. Column 4 indicates the number of full-time employees in the firm. This measures the size of the family firm, which is one of the section criteria of the case study. Column 5 records the percentage range of growth the firm over the past three years. Column 6 highlights the existence (or absence) of formal governance (board, formal business meeting) at the time of the interview.

**Conducting Interviews**

Similar to phase 1, semi-structured interviews were conducted face to face with all the case study participants in their meeting room/office. Interviewees are the owner-managers from the selected family firms. As noted on page 136, semi-structured interview helps obtain accurate and detailed answers from the interviewees, enables the researcher to generate a high response rate from the participants, and creates the opportunity for clarifying doubt. Its aim is to ensure interviewees’ proper understanding on questions, and pick up non-verbal cues from the interviewees. When discussing the organisational structure and culture, some

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76 At the time of the interview the past three years referred to 2006–2008.
participants provided the use of visual aids such as the organisational charts and mission statements for further explanation during the interviews.

The semi-structured interviews conducted lasted from approximately 90 minutes to 150 minutes, depending on the participant’s openness and willingness to talk. Prior to the interview session, the researcher briefly explained the purpose of the study and encouraged interviewees to ask questions. It was made clear from the beginning to the interviewees that their participation was totally voluntary and that they were free to decline answering any questions, or withdrew from the interview at any time. All participants were informed and reiterated that data and information they provided during the interviews would be kept anonymously and confidentially. In addition, the researcher informed the interviewees that tape-recording was for the transcription purpose only, and was used only with the consent of interviewees. None of the participants declined to be tape-recorded. Interviewees did not confirm the transcripts mainly due to time availability and the mutual trust developed between themselves and the researcher.

All participants were also requested to complete a pre-interview questionnaire survey (see Appendix 6) before the interview. The descriptive data gathered from this survey helps identify the demographic pattern of the participated firms. In addition, an information sheet with the abstract of the present study, and a standard letter in relation to ensuring the confidentiality and anonymity of responses were sent to all the participants (see Appendix 7). All interviewees were informed in advance by a consent form which stated that the interview was totally voluntary-based (see Appendix 8).

Table 9 below presents the profile of the interviewees. Column 1 identifies the firm’s pseudonym. Column 2 describes the time range of the participant’s involvement at their firm. Column 3 indicates their organisational position and Column 4 identifies their owner/manager position.
Table 9: Case Study - Profile of Interview Participants
(n = 16)

<table>
<thead>
<tr>
<th>Firm</th>
<th>No. years in firm</th>
<th>Organisational Position</th>
<th>Owner/Manager Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>OW</td>
<td>6–10</td>
<td>Managing Director</td>
<td>Family owner-manager</td>
</tr>
<tr>
<td>HS</td>
<td>11–15</td>
<td>Managing Director</td>
<td>Family owner-manager</td>
</tr>
<tr>
<td>AM</td>
<td>1–5</td>
<td>Operation Manager</td>
<td>Family manager but not owner</td>
</tr>
<tr>
<td>AM</td>
<td>6–10</td>
<td>Managing Director</td>
<td>Family owner-manager</td>
</tr>
<tr>
<td>QM</td>
<td>1–5</td>
<td>Marketing &amp; Administration Manager</td>
<td>Family manager but not owner</td>
</tr>
<tr>
<td>HD</td>
<td>11–15</td>
<td>Operations Director</td>
<td>Family manager but not owner</td>
</tr>
<tr>
<td>AT</td>
<td>6–10</td>
<td>Managing Director</td>
<td>Family manager but not owner</td>
</tr>
<tr>
<td>LC</td>
<td>&gt;15</td>
<td>Managing Director</td>
<td>Family owner-manager</td>
</tr>
<tr>
<td>FR</td>
<td>&gt;15</td>
<td>Director</td>
<td>Family owner-manager</td>
</tr>
<tr>
<td>LI</td>
<td>&gt;15</td>
<td>CEO</td>
<td>Family manager but not owner</td>
</tr>
<tr>
<td>WO</td>
<td>11–15</td>
<td>Manager</td>
<td>Family manager but not owner</td>
</tr>
<tr>
<td>WO</td>
<td>&gt;15</td>
<td>Manager</td>
<td>Family manager but not owner</td>
</tr>
<tr>
<td>WO</td>
<td>&gt;15</td>
<td>Manager</td>
<td>Family manager but not owner</td>
</tr>
<tr>
<td>MC</td>
<td>&gt;15</td>
<td>Owner, Managing Director, Chair – Board of Directors</td>
<td>Family owner-manager</td>
</tr>
<tr>
<td>MC</td>
<td>&gt;15</td>
<td>Owner, Marketing Manager</td>
<td>Family owner-manager</td>
</tr>
<tr>
<td>AP</td>
<td>6–10</td>
<td>CEO</td>
<td>Family owner-manager</td>
</tr>
</tbody>
</table>

Throughout the interview process, the researcher followed a consistent line of inquiry in an open-ended, friendly and non-threatening manner. The researcher occasionally rephrased the questions and provided the alternative word usage when the participants did not fully comprehend what the question asked. Probing was used when the interviewees offered vague or ambiguous answers to the questions asked.

**The Interview Schedule Used for Case Study**

A semi-structured interview schedule was formulated prior to the interview (see Appendix 9). This interview schedule consists of open-ended questions surrounding the themes of family business governance, the effect of embeddedness and the ability of family firms to achieve their economic and noneconomic goals. All participants were encouraged to raise questions and provide any opinions during the interview process.
To ensure internal validity between the research method and the conceptual framework, the interview schedule was not derived from any previously published 'scale' or questionnaire. Instead, the literature review, the phase 1 findings and the phase 2 (survey) findings have provided concrete materials to develop questions that were utilised in the interviews. This not only limits the ambiguity of the questions, but also facilitates comprehensive discussion with issues relevant to the research topic during the interview. To facilitate comprehension, jargon and terminology were avoided for use in the interview schedule. Great care was taken to provide a standard and alternative wording for interview questions.

Prior to the interviews, the researcher also pilot-tested the interview schedule with five individuals who were the owners and managers of family firms. They were not the research participants in both case studies. As Saunders, Lewis & Thornhill (2003) argue, the purpose of pilot testing is to refine the interview schedule. Feedback from the pre-tests enabled the researcher to ensure the questions were not discriminatory, irrelevant or posing a potential invasion of privacy.

Table 10 describes the issues investigated by different sections of the interview schedule.

**Table 10: Interview Schedule (Case Study) and Issues Investigated**

<table>
<thead>
<tr>
<th>Interview Schedule Sections</th>
<th>Propositions Investigated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Section A: General Information</td>
<td>General information about the family firm's values and history.</td>
</tr>
<tr>
<td>Section B: 'Family Business'—Family and Business</td>
<td>Further contextualise the sub-systems of 'family', 'business', and 'individuals'.</td>
</tr>
<tr>
<td></td>
<td>Explore the participant's view on succession.</td>
</tr>
<tr>
<td>Section C: Relational Governance &amp; Social Capital</td>
<td>Primarily substantiate the Relational Governance Model (i.e. propositions 1 to 4). 77</td>
</tr>
<tr>
<td>Section D: Exploratory Issues—Social Embeddedness (Structural &amp; Relational),</td>
<td>Propositions that are concerned with the relationship between:</td>
</tr>
</tbody>
</table>

---

77 See Chapter 3, p. 94.
Family Business Governance and the Ability of Family Firms to Achieve their Economic and Noneconomic Goals

- relational governance and structural embeddedness (closure of network ties, network configuration).
- relational governance and relational embeddedness (relational trust, norms of reciprocity).

Section E: Exploratory Issues: Economic and Institutional Embeddedness

Propositions that are concerned with the relationship between:
- relational governance and mixed (economic and institutional) embeddedness.
- relational governance and the formation of formal governance.

Section F: The Ability of Family Firms to Achieve their Economic and Noneconomic Goals

Propositions that are concerned with the relationship between governance (informal and/or formal) and the ability of family firms to achieve economic and noneconomic goals.

The interview schedule was sent to participants prior to the interview. As shown in Table 10, the interview schedule was formatted by firstly ‘warming up’ the participants with general questions about the family firm’s self-perception of being a family business, values and history. Sample questions used in Section A were:

- To you, what is a family business?
- How do you develop family commitment to business?

This was followed by questions aiming to unravel the research themes outlined in the interview schedule. In Section B, the researcher explored the participant’s approach to balance between family goals and business objectives by covering a range of issues such as employment opportunities of family members, interpersonal relationships, strategies to family and business matters and succession plans. Sample questions were:

- Who are the key decision makers of the firm? How would you describe your relationships with them?
• Have you ever come up with difficulties to balance family wants and business needs? If yes, under what circumstances?

• How significant/important is succession planning to you and your business at this time?

Relational governance was further addressed in Section C of the interview. Qualitative data collected helps triangulate the findings of the preceding phases. In particular it was the researcher’s intention to examine the circumstances that influenced the participant’s decision to utilise relational governance or formal governance, such as board meetings; the level of social interaction (for example, whether they know each other on the personal level); and shared vision. Sample questions were:

• Do you agree that you and other managers often share the same vision related to business? Why/why not?

• Under what circumstances do you choose informal/formal/board meetings for important business discussion?

Section D explored the correlation indicated in the survey results (phase 2), particularly how mixed embeddedness influences family business governance and the ability of family firms to achieve their economic and noneconomic goals.78 The participants were also asked to share their views on issues such as network closure (for example, the interpersonal or inter-organisational relationship between key decision makers of family firms, and between family members and their key business stakeholders), and relational embeddedness between family firms and their stakeholders (for example, relational trust, years of developing personal relationships). Sample questions were:

• How do you describe the trust among key family decision makers?

• How important is trust to the family and the business?

• How do you develop trust with your clients/business partners?

• How many years have you personally known your major business partners?

78 The results were discussed in Chapter 7.
In Section E, the ‘effect’ of mixed embeddedness was further investigated by delving into issues such as the nature of the family firm’s industry and business environment, and the strategies to respond to the business challenges. Sample questions were:

- How would you describe your business environment?
- How do you and your management team make decisions when facing business challenges?
- Please identify some major business activities in recent years.

Section F elaborated on the issues associated with the ability of family firms to achieve their economic and noneconomic goals, such as commitment to strategic decision, activities that contributed to business growth, and the adopted business strategies to outperform the competitors. Sample questions were:

- To you, what makes a good business decision?
- How do you make decisions when facing the changes in the business environment?
- As manager, how do you make your company stay competitive? (For example, maintaining good relationships with clients).

**Qualitative Data Analysis: Case Study**

The data analysis for the case study adopted the three-stage process suggested by Saunders, Lewis & Thornhill (2003) as previously discussed (see pages 141-142). The categories used were based on the terms used in the literature of social capital and embeddedness. The interview schedule adopted for the case study (see Appendix 9) consists of six sections on themes such as the characteristics of family business (Section B), relational governance (Section C), social embeddedness and family business governance (Section D), the effect of mixed embeddedness (Section E) and the ability of family firms to achieve their intended goals (Section F). All the categories were retained after sorting through the individual responses, and used to further inform the research findings presented in Chapter 5, Chapter 6 and Chapter 7.
Similar to phase 1, NVivo was used to review the transcripts and highlight material of interest. The computer software was used only to arrange the data under a coding tree. After coding the data, the research identified relationships by comparing data with patterns within and across categories.

This study has also drawn on Leximancer to analyse the interview transcripts of phase 3. As discussed on pages 142-144 of this chapter, Leximancer helps generate a conceptual map that diagrammatised the location and proximity of concepts groups that differ from colour and size of the circles. The conceptual map assists the researcher in analysing the strength of relationships between the concepts and the relative importance of these concepts. Consistent with the data analysis approach in phase 1, the researcher is aware of conditions for analysis that may influence the results, such as the seeding of the analysis with manually constructed concepts. An un-seeded (or first-cut) analysis that developed the constructed concepts helps reduce research interference. The analysis using Leximancer was also conducted multiple times as a check for the stability of the conceptual maps. The questions from the interview schedule were deleted from the text to minimise pollution in the analysis. While Leximancer maps have been reproduced to support the discussion of findings, the researcher has also drawn on the transcript quotes generated by the Leximancer analysis that appeared with the themes to represent the richness of the findings. Chapter 7 presents the analysis of interpretation of phase 3 findings.

**Interpreting Secondary Data: Documents**

Remenyi, Williams & Swartz (1998, p. 175) state that an analysis of documents may be undertaken in order to ‘corroborate and augment evidence from other sources’. During the data collection process only a few participating family firms provided documents such as the minutes of meetings, mission statements, organisational charts and job descriptions with employment criteria. These materials inform the researcher with:

‘...valuable background information about the company, as documents deriving from private sources like companies are likely to be authentic and meaningful, in the sense of being clear and comprehensible to the researcher, though this is not to suggest that
the analyst of documents should be complacent’ (Bryman & Bell 2007, p. 566).

The documentation provides information on a family firm’s operation. Minutes of meetings assist in verifying the attendants of formal meetings and their designated roles in the meetings. Other documents in the public domain include public relations material in printed form and on the internet (for example, the company profile). Precaution is taken with the credibility and representativeness when analysing documents in the public domain, such as annual reports, as ‘they may not be an accurate representation of how different organisational actors perceive the situations in which they are involved’ (Bryman & Bell 2007, p. 566).

The researcher did not receive any annual reports in the public and private domain. This contributes to another difficulty of collecting data from family firms. Ideally, information on the company’s websites, business reports and minutes help the researcher understand the company’s history, firm performance and organisational structure. This subsequently enriches the background knowledge of the family firms. However, most participating family firms declined to provide the aforementioned information for two main reasons. Firstly, the researcher was told that minutes were not kept and business plans were not documented in these family firms. Secondly, privately held family firms with such documents declined to provide any copies to the researcher, as some managers perceived these documented materials as the private properties of the firm. The difficulty of gaining access to some organisations means that researchers have to ‘rely on public domain documents alone’ (Bryman & Bell 2007, p. 566). Hence, qualitative content analysis was not conducted for the study, mainly due to the limited documentary information derived from the family firms.

Given the limited access to family firms’ documents, this study relies on the data provided by each interviewee, including demographics, ownership type, business growth, policies and plans that identified the firm’s long-term business development. With those family firms that have their own websites, the online information derived from their web pages (such as the family firm’s profile) is double-checked with the information collected from the interviews.
In summary, this study argues that the generative research method is consistent with the mixed methods design, which helps collect a mix of qualitative and quantitative data to explain how relational governance influences family business and the ability of family firms to achieve their economic and noneconomic goals. The following sections further discuss the issues of validity, ethical consideration of the study, and the limitation of the present study.

**Validity**

Validity addresses whether the researcher measures what they set out to measure and if so, whether the results can be related to an objective criterion (Smith 1981). Cavana, Delahaye & Sekaran (2001, p. 212) refer validity to ‘the ability of a scale to measure the intended concept’. Validity is also concerned with the ‘integrity of the conclusions that are generated from a piece of research’ (Bryman 2003, p. 30).

EFA and correlation analysis were conducted for the present study. EFA established construct validity by ‘confirming the dimensions of the concept that had been operationally defined, and indicating which of the items were most appropriate for each dimension’ (Cavana, Delahaye & Sekaran 2001, p. 214). As mentioned on pages 147-148, five questionnaire pre-testings assisted in achieving content validity.

Similarly, the interview questions were also pilot-tested to eliminate bias. The interview schedules used in phase 1 and phase 3 were all pre-tested to ensure content validity, particularly in ‘minimising the likelihood of respondents having problems in answering the questions and of data recording problems as well as to allow some assessment of the questions’ validity and reliability’ (Saunders, Lewis & Thornhill 2003, p. 484).

To strengthen internal validity, Miles & Huberman (1994) and Yin (1989) state that researchers should compare the empirical patterns with those of existing theoretical propositions. This technique was adopted in all phases of the study. One example is related to how family firms respond to challenges of balancing family and business priorities. In phase 1, the research findings reveal that family firms used the monthly formal executive meeting as part of their long-term strategic plan, as the
top management perceived such formalisation as an effective response to long-term business growth. This issue was further explored in the next phase of the study (survey questionnaire), which indicated that the correlation existed between the frequency of formal meeting and formalising long-term strategic plan.

The phase 3 findings clarified the proposition\(^{79}\) about the relationship between relational governance and formal governance in family firms. A comparison between those cases that had adopted formal governance mechanisms (such as a Board or formal business meetings that included external professionals) and those that had not highlighted the influence of the embedded environment on family business governance, particularly intense market competition.

As already noted (see pages 127, 140 and 149) in this chapter, the researcher is aware of the ethical issues of conducting the present study. These include seeking informed consent, collecting sensitive information, limiting any harm to the participants and maintaining confidentiality. These issues are further discussed in the next section.

**Ethical Considerations**

The University of Western Australia enforces a set of strict guidelines addressing ethical conduct by researchers who undertake research involving human subjects. Overall, the present study aims to gather information from the sample group ethically and confidentially. Kumar (1996) outlines a number of ethical considerations. The concerns relevant to the study are outlined below, alongside the methods used to address them.

**Seeking Informed Consent**

As noted, interviewees were provided with a covering letter and information sheet detailing the purpose of the interviews and survey questionnaires.\(^{80}\) Each interview participant signed a consent form before the interview. Tape-recording of the interviews occurred only with the express consent of the participants. Transcripts

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\(^{79}\) See Chapter 3, page 117 for proposition 8.

\(^{80}\) For example, see Appendix 2 (a standard letter to inform confidentiality for the Phase 1 study); Appendix 7 (a standard letter to inform confidentiality for the Phase 3 study) and Appendix 8 (consent form for the Phase 3 Case Study participants).
were not confirmed by the interviewees, mainly because of the trusting relationship shared between themselves and the researcher.

**Seeking Sensitive Information**

Before conducting the interview, the participants were encouraged to ask any questions about the study. It was made clear to the participants at the beginning that their participation was totally voluntary and that they were free to decline answering any questions or terminate the interview at any time. All participants were informed and it was reiterated that data and information they provided during the interviews would be kept anonymously and confidentially. Likewise, survey participants were informed that all information would be treated as confidential. Access to data was restricted to the researcher only, and no individual or organisation would be identified. The survey respondents were also told that they could contact the researcher via the provided email address if they experienced any problems or difficulties with the survey.

**Limiting Any Harm to the Participants**

All the interviews conducted for the study took place in a private area such as the interviewee’s office to stop others from overhearing the participant’s response.

**Maintaining Confidentiality**

All the data collected from the firm, the interviews and the surveys were treated with confidentiality. No identifying information was asked for on the survey, except the last section, which was optional (i.e. the Family Firm’s Only Section) and aimed to collect contact details from survey respondents who were interested in further participating in the study (see Appendix 5). It was optional for survey respondents to offer expression of interest for further participation of the present study. As stated in the covering letter attached with the survey, the survey participation remained completely voluntary and participants could terminate the survey at any time without prejudice. The participants were also told that all the survey results would be handled by the researcher only, and would be destroyed after the assessment of the study.

Likewise, the researcher had assured the interviewees that all recordings, documents and transcripts of interviews were securely stored. Their names and
their companies were disguised with pseudonyms in all discussion of the study. All the information and related materials obtained from the interviews would be destroyed after the study has been assessed.

The next section further discusses the limitation of the present study and difficulties at different stages of the study.

**Limitations of the Present Study**

The major difficulty encountered in undertaking the present study is the accessibility to the family business community of Western Australia. Given the exploratory nature of the study, it is believed that most privately held family SMEs are not interested or relatively unprepared to participate in this under-researched topic. Despite the clarification on issues such as ethics and confidentiality, the vast majority of family SMEs were not confident to openly disclose any information about their governance and performance outcomes. In addition, a number of business community groups and institutions were on the contact list prior to survey distribution. Despite receiving promising contacts from these organisations, they declined to participate by giving ‘the eleventh hour’ notice without justifiable explanations.

To overcome these difficulties, the researcher accessed the personal network between the research supervisor and upper-most management of intermediary agencies such as FBAWA and SBDC and BCSWA, which in turn assisted the researcher in commencing the sampling process. As a peak body for family businesses in Western Australia, FBAWA has established a membership of multi-generational family businesses since its commencement in 1998. Members of FBAWA are entitled to access social and networking events that generate opportunities for family firms to learn and grow (Welcome to Family Business Australia (‘FBA’) 2011). The researcher contacted FBAWA by emailing and calling the executive officer (FBAWA provided the contact details of its executive officer on its website).

SBDC is the Western Australian State Government agency that focuses on the development of the small business sector. The agency provides related information
on the website and organises small business workshops to increase business and management knowledge of small businesses in Western Australia (Small Business Development Corporation (‘SBDC’) 2014). As already noted in the Introduction (see page 4), Australian family firms are mostly SMEs. In this regard, the researcher contacted the SBDC officers through emails, phone calls and meetings.

As a coaching service provider across Australia, BCSWA develops and offers a series of training programs on topics such as leadership, strategic planning and performance management to companies in Western Australia (Welcome to Business Coaching Systems 2011), with a particular expertise in family business. The researcher contacted the principal of BCSWA through the personal network of the PhD supervisor.

Eventually the final sample group of the survey consists of members from FBAWA and SBDC. SBDC did not statistically categorise family business in its database. To counteract this limitation, the present study alternatively added an extra survey question that asked the potential respondents to answer ‘yes/no’ about a statement with the definition of family business.

The researcher is also aware that the recipients of the online survey might have received the postal survey from the FBAWA. Prior to the survey distribution, a presumption was made: if this incident occurred, the recipient would not have answered both surveys, as the content of the survey from both sources was identical. This avoided any overlapping survey received from the same respondent. In addition, the background information collected (for example, demographics) from the survey helped ensure that all the usable responses were valid and that no respondents had answered the survey twice.

Access to the sample group continued to be a difficulty, particularly when trying to seek potential participants for phase 3 (case study). The personal network of the research supervisor, BCSWA and FBAWA assisted in establishing some contacts.

As a result of these difficulties, this study is limited to a relatively small sample size. This is mainly due to access restraints and the low level of willingness of individuals to be interviewed and surveyed. From the perspective of a quantitative researcher,
this leads to the difficulty of acquiring a complete sample group that is more
generalised than the existing sample used for the study. In other words, the small
sample has its limits on applicability. However, EFA helps create the measures that
are further used to develop the interview schedule adopted in the case studies.
These measures are meaningful and useful for future research interests as they
indicate the correlations related to the associated propositions of the conceptual
framework of the study. Given that the correlation matrix only captures one
snapshot in time with no inference of causality, the case study in phase 3 is
therefore necessary in order to further explain the suggested correlations and other
propositions.

In addition, the sample consists of family firms of Western Australia, which limits
the generalisability of other family firms elsewhere in Australia and worldwide.
Cost and accessibility to participants are the main practical reasons against the
enlargement of the sample size. Data about the total population is not readily
available to facilitate the present study, as the family business community is
composed of privately-held firms, and there is no data bank about family business
characteristics in Australia.

However, from a qualitative perspective, the issue of sampling remains a debatable
topic. Mason (2010) states that samples of qualitative studies are generally much
smaller than those used in quantitative studies. This is because there is a point of
diminishing return to a qualitative sample. As the study goes on, more data does
not necessarily lead to more information (Ritchie, Lewis & Elam 2003), especially
when the research reaches theoretical saturation, which suggests that cases are
added until new cases no longer contribute to the discovery of additional themes or
patterns (Strauss 1987). Eisenhardt (1989) recommends that in order to achieve
theoretical saturation, research based on qualitative case studies should have
between four and ten cases. Thus, compared to quantitative research, frequencies
are relatively not important in qualitative research, provided that one occurrence of
the data is potentially as useful as many in understanding the process behind a
research topic (Mason 2010).

In addition, while Leximancer has recently been used in a variety of qualitative
research settings (e.g. Scott & Smith 2005; Martin & Rice 2007; Stockwell et al.
2009; Cretchley et al. 2010; Dann 2010), this study acknowledges that it is still not a content analytics tool that is widely employed. The results generated by Leximancer are also new to analytical discussion, particularly in family business studies.

Furthermore, it is generally accepted that engaging in research with privately held firms is problematic, given the concern about confidentiality issues. Participants for all phases were recruited with the assistance of the intermediary agencies FBAWA, SBDC and BCSWA. Notwithstanding this, the small sample derived from the FBAWA and SBDC produce some representation as it is not biased on any specific categorised industries. With a larger sample size, the external validity can be improved for future research. As indicated in the conclusion of this study, it would be useful for further research to explore the implications of the findings presented in this study using a larger sample size.

**Conclusion**

As discussed in the previous chapters, the research focus of this study is how relational governance influences family business and the ability of single-family SMEs to achieve targeted economic and noneconomic goals. This chapter argues that a mixed methods design assists in canvassing this exploratory research problematic. To pursue this task, the present study employs the generative research method (Simon, Sohal & Brown 1996) to undertake the empirical work for this study. The next chapter presents the research findings of phase 1 as part of the modified generative research method.
CHAPTER 5

Research Findings:
Phase 1 – In-depth Interviews

_The family is a source, builder and user of social capital._

Bubolz (2001)

Introduction

The study draws on a social capital perspective to understand how relational governance influences family business in same-family SMEs, and the ability of these firms to achieve their economic and noneconomic goals.

As discussed in Chapter 4, the sample in phase 1 consists of five family SMEs, which have two or more family owner-managers and family managers in the family management unit. The participants were randomised in relation to industry, generation and gender. As Table 3 (pp.135-136) indicates, they adopted a variety of governance approaches ranging from informal relational governance to formal governance mechanisms such as boards.

The aim of this phase was to clarify how relational governance operates. Thus, the findings as reported for this phase respond to propositions 1, 2, 3 and 4, that is, there exists a variety of family institutions that facilitate social interaction (P1), which together with the size of the family management unit (P2), contribute to a level of shared interaction (P3) that can – ideally – foster a shared vision between family members about the future goals for the family and business. This process can be described as relational governance, which influences the ability of a same-family SME to achieve both economic and noneconomic goals (P4). The rest of the chapter presents the findings as they clarify these propositions.
Relational Governance and the Ability of Family Firms to Achieve their Economic and Noneconomic Goals

In Figure 9, there are four knowledge pathways that indicate how relational governance as an informal level of social control operates in family firms.

![Conceptual Map Identifying Relational Governance](image)

**Figure 9 – Conceptual Map Identifying Relational Governance**

All Family Firms (Phase 1)

path 1 (black); path 2 (light blue); path 3 (red); path 4 (orange); path 5 (green)

The area outlined by the dotted dark blue line in Figure 9 (including ‘Interaction’, ‘Vision’, ‘Informal’ and ‘Meeting’) capture the main components of relational governance. The four knowledge pathways that have been identified illustrate how relational governance operates in family firms. **Pathway 1** (black line in Figure 9) connects the theme ‘Family’ with ‘Meetings’ and ‘Informal’. The linkage and proximity between these themes highlights the role of informal family institutions in
providing a forum for family members to discuss family and business issues: 'we have informal family meetings to discuss most of the family and business issues. This is convenient and allows all of us to have doorway meetings' (Owner-Manager, Company A, 2008, April). Other transcripts for this pathway further illustrate that even family members, who assume the owner's and/or manager's role in their firms, used these informal family institutions to 'discuss most of the daily, ad hoc family and business issues' (Company A).

However, pathway 2 (light blue line in Figure 9) that connects the descriptor 'Meet' with 'Social', 'Interaction' and 'Meeting' suggests that these family institutions can also be formal: 'to discuss important business decisions, including 'our long-term direction and goals we want to achieve' (e.g. Company B) and as 'a platform for us to discuss some longer term business decisions' (e.g. Company C), or more importantly to 'keep family and business issues separate from each other (as) we think this is a better and more effective way to run our company' (Company E). At these meetings, it was also commonplace that family SMEs invited non-family members, such as accountants to attend 'for independent and professional advice' (Company D).

Thus, both pathway 1 and pathway 2 illuminate the variety of family institutions that family members use to discuss family and business issues: 'for daily ad hoc issues, we usually use informal family, doorway meetings to sort things out. But when it comes to something that's out of our knowledge, we use formal business meetings and try to hear from professional adviser and accountants' (Owner-Manager, Company C, 2008, April). The implication of noting these differences is that family businesses use a variety of family institutions to balance the unique tension in family SMEs, that is, the juggle between family and business.

The relationship between social interaction and size of the family management unit is also explained by the transcripts. Figure 9 shows that the theme 'Interaction' (coloured in red) is overlapped with themes such as 'Agree', 'Team' and 'Managers', which shares a high proximity to other themes such as 'Key', 'Family' and 'Members'. The implication of the positions of these concepts can be found from the associated transcripts, as all interviewees agreed that a small team that meets regularly contributes to the frequency of social interaction: 'The smaller the team size, the more frequent interaction we (family members) have among us working as
a team’ (Manager, Company D, 2008, April). As such, it suggests that the size of family management unit appears to relate to the level of social interaction among family members. However, it would be ideal if there are other examples in the sampled family firms to illustrate how a large family management unit may influence the level of social interaction among family members.

Ideally, the alignment of family values and business imperatives can provide an incentive for the success of family firms (James 1999b). **Pathway 3** (red line in Figure 9) that connects ‘Meeting’ and ‘Shared Vision’ suggests that a close relationship exists between social interaction and forms a shared vision among members of the family management unit: ‘a shared vision is created from frequent social interactions through informal meetings almost on a daily basis’ (Manager, Company B, 2008, April). Another transcript associated with this pathway highlights the significance of forming this shared vision in establishing and integrating both business and family goals for the family business: ‘Our mission statement is pretty much my values, and my family values, like honesty and loyalty. We work hard to achieve our business goals and provide the best service to our customers’ (Owner-Manager, Company C, 2008, April).

These findings clarify how relational governance ‘works’ as a process, and specifically as an informal level of social control that family SMEs appear to rely on to guide their business. Members of small family management units use a variety of family institutions, ranging from informal (doorframe meetings), semi-formal (which includes nonfamily members such as an advisor, an accountant or a lawyer) to formal (board) meetings to discuss family and/or business matters, thus contributing to a level of social interaction. The social interaction associated with a variety of family institutions generates a level of shared vision between members of the family management unit about the economic (business) and noneconomic (family) goals, which can foster long-term value creation for the family firm’s future.

However, there remains a ‘dark side’ to this process that can create negative consequences for family firm operations and strategic directions. These emerge in **pathway 4** (orange line in Figure 9), which connects ‘Interaction’ with other themes including ‘Agree’, ‘Managers’, ‘Family’ and ‘Business’. Transcripts associated with pathway 4 indicate that ‘particularism’, which manifests itself when the family
views the firm as ‘our business’ (Demestz & Lehn 1985), is in fact a double-edged sword to family firms. If misused, family firms can become ‘myopic’ in terms of prioritising non-economic performance (Le Breton-Miller & Miller, 2009):

‘…he (a family member hired by the owner-manager of the family firm) came and didn’t do a lot. A job didn’t exist at the first place. Then it affects sustainability because it (the decision to create a job for a family member) affects employee motivation—employees think that because he (the family member) was not really working then why should I? We had employees threatening to leave the company. In hindsight, this decision was quite destructive to our family and more to our business’ (Manager, Company B, 2008, April).

This transcript illustrates the abusive use of ‘personalism’ in influencing the ability of family firms to achieve their intended goals. In the absence of formal governance such as board monitoring, the family owner-manager can predominantly shape the business through frequent meetings with other family managers. The interview transcripts associated with pathway 4 further illustrates the nature of decision making in some family SMEs:

‘I am more like the employees of the firm when it comes to making important decisions. Dad will usually make the final decision based on his gut-feel and experience. He thinks he knows the best. He always has the final say on the company’s business decisions’ (Manager, Company A, 2008, April).

Another interview transcript relating to pathway 4 seems to indicate that ‘personalism’ (i.e. personalisation of authority) can also encourage disagreement about the future goals and strategies generating family disgruntlement that influences the ability of family firms to achieve their intended goals:

‘…disagreement sometimes grows between us but it was actually unnecessary…when we are making decisions together, they (the manager’s parent) always like to double check my work. The family factor comes into play as if I am always a kid in my parent’s eyes. It
happens quite often in our company’ (Manager, Company A, 2008, April).

The transcripts explain the awareness by family firms that this ‘dark side’ had on negatively influencing their ability to achieve their goals. Company C identified ‘the ability to achieve’ as critical to their firm’s operation and stated that favouritism is discouraged as management enforced the same employment criteria to all workers, including family members. An interview transcript associated with pathway 4 further illustrates that:

‘We (family owners and managers) cannot accept creating a position for a family member for its own sake. They (family members) need to fit in to what we do and how we do it’ (Owner-manager, Company C, 2008, April).

Driven by strong business ethics, the family manager highlights the importance of ‘sharing the same view and vision about the business operation’, which subsequently influences family business governance and in turn the ability to achieve their intended goals. In particular, family members and workers need to demonstrate:

‘…enthusiasm and willingness to learn…they need to agree with the culture and ethics and be really enthusiastic to the job’ (Manager, Company C, 2008, April).

The importance of having a shared vision to achieve other goals was clarified in other transcripts associated with pathway 4. The text from interviews (associated with pathway 4) indicates that based on a shared vision focusing on workplace safety, customer satisfaction and employee satisfaction, management of Company C endeavoured to outperform their competitors by creating a shared vision:

‘Any issues involving safety is important, that’s our priority. Then business financial decisions; if we didn’t make a profit we couldn’t be in the market. If we don’t have good customer relationships, we will
not do well in our business’ (Owner-Manager, Company C, 2008, April).

Likewise, managers of Company D (April 2008) identified ‘getting our products overseas by streamlining the processing line for efficiency’ and ‘pushing for the quality and the shelf life…we need to do a lot of changes to the ways of getting into the export market, to get the products last long enough to go overseas’ as the family firm’s shared vision of its long-term goal achievement.

In summary, the research finding clarifies the relational governance model and propositions (1 to 4). These findings support the view that it is the interplay between the dimensions of social capital (structural and cognitive) that generates relational governance (the area outlined by the dotted dark blue line in Figure 9), which in turn affects the ability of family firms to achieve their intended economic and noneconomic outcomes.

Findings in phase 1 not only inform the informal aspect of family SME governance, or what it is known as ‘relational governance’, but also highlight the formal aspect of governance in some family SMEs. This is further discussed in the next section.

Professionalising Governance in Family SMEs

In the phase 1 study, two family SMEs (i.e. Company A and Company B) did not have any formal family institutions, while three others (Companies C, D & E) had formal family institutions. To further clarify how relational governance operates and influences the ability of family firms to achieve their economic and noneconomic goals, a comparison analysis was conducted by grouping those firms with no formal family institutions (Group A, that is, Companies A and B) and those with formal family institutions (Group B, that is Companies C, D and E). The next sections present these findings.

Group A – Family SMEs that Have No Formal Family Institutions

As Figure 10 shows, the analysis is consistent with the following findings that have already been noted in the previous sections of this chapter:

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81 See Chapter 3, Figure 5, p. 94.
• **Pathway 1** suggests that shared values among family members influence the shared vision of family firms: ‘our family and non-family managers and I often share the same family and business values and these have shaped our visions through frequent social interactions’ (Manager, Company B, 2008, April).

• **Pathway 2** highlights the role of informal family institutions for discussing ‘family and business issues. It is convenient and allows all of us to have doorway meetings almost every day’ (Owner-Manager, Company A, 2008).

![Figure 10 – Conceptual Map: Company A and Company B (Group A) - Phase 1](image)

path 1 (red); path 2 (yellow); path 3 (black); path 4 (green)

• **Pathway 3** additionally highlights the significance of the size of the family management unit in fostering social interaction that influences the firm’s operation and strategic directions: ‘we have a small team and it’s much easier for us to meet and discuss things’ (Manager, Company B, 2008, April).

However, it is the interview transcripts associated with **pathway 4** that further clarifies how relational governance can negatively influence the ability of family firms to achieve their intended goals. The transcripts illustrate the disgruntlement caused by personalism, particularly when the owner manager has retained final decision-making. As a result, the manager of the firm (i.e. the son of the owner-manager) feels ‘more like the employees of the firm when it comes to making important decisions. Dad (the owner-manager) will usually make the final
decision based on his gut-feel and experience. He thinks he knows the best’ (Manager, Company A, 2008, April). When personalism encourages decisions for favouritism (i.e. creating positions based on kinship rather than merit in Company B), the ability of a family SME to achieve its goals is weakened (e.g. existing employees against the family’s decision and threatened to leave the firm) which in turn ‘affects sustainability because it (the decision to create a job for a family member) affects employee motivation—employees think that because he (the family member) was not really working then why should I?’ (Manager, Company B, 2008, April).

On the other hand, the analysis from Group B firms indicates that whether family institutions create a positive influence on the firm’s ability to achieve economic and noneconomic goals depends on how a shared vision is developed through family business governance mechanisms. This is further discussed in the next section.

**Group B – Family SMEs that Have Formal Family Institutions/Boards**

As Figure 11 shows, the descriptors ‘Informal’ and ‘Formal’ located in the theme ‘Meetings’ indicate that family SMEs in Group B have meetings for different purposes. The interview transcripts associated with **pathway 1** (red line in Figure 11) that connects the themes ‘Family’ and ‘Meetings’ through the descriptors ‘Business’, ‘Family’, ‘Meeting’, ‘Informal’ and ‘Formal’ suggest that some family SMEs used informal family institutions for daily ad hoc issues (Company C), but held formal family institutions to discuss important business decisions with external advisers (Companies C and D):

‘We use informal family meetings for daily family and business matters, and formal business meetings and board meetings to discuss important business decisions, including our long-term direction and goals we want to achieve. And we sometimes invite non-family members, such as our accountants to attend our formal business meetings for independent and professional advice’ (Owner-Manager, Company D, April, 2008).
While the transcripts associated with pathway 2 (amber line in Figure 11 connecting ‘Meeting’, ‘Create’, ‘Daily’ and ‘Frequent’) again indicate the same aspects of relational governance that have already been noted (that is, frequent or daily meetings to deal with family and business issues by ‘creating’ a level of shared vision on goals family members aim to achieve) to the transcript illustrates aspects upon which a shared vision is sought:

‘Our shared vision is to become the benchmark by which other companies in our industry are measured. We will be held in high regard by customers and competitors alike for our ethics and values, such as work safety, honesty and provide quality service to clients and suppliers. We will encourage our team members to take our values and ethics as their own’ (Owner-Manager, Company C, 2008, April).

However, the analysis for Group B highlights how these family SMEs attempt to formalise family business governance when seeking to discuss of important business decisions that determine long-term business direction and goals (e.g. Company E).
The transcripts associated with pathway 3 (green line in Figure 11) illustrate this: while indicating that formal family institutions were utilised, relational governance as an informal level of social control failed to cope with business issues beyond the controlling family’s knowledge:

‘I am the founder, owner and manager of the company. The business was originally started around my capabilities and my experience in the industry. I am a mechanic and it’s been a really steep learning curve for me to work on the business. When the business keeps growing fast, we need outsiders and professionals to give us professional opinions’ (Owner-Manager, Company C, 2008, April).

‘When the company keeps growing fast and the market keeps expanding, we notice that there is a limit in terms of our capabilities. In response to this, we have recently hired a business coach to help us establish some formal plans for our company’s future’ (Owner-Manager, Company D, April, 2008).

At the time of interview (April 2008), the family management unit of Company D was in the process of formalising governance practices. The owner-manager worked closely with his business consultant in relation to mapping out the timeline for governance transition. This included recruiting non-executive board members to provide independent views on management practices. During this transition period, one of the interview transcripts associated with pathway 3A elaborates that the management of Company D formulated long-term business strategies as a response to future business growth:

‘What we do is we usually have our formal management meetings to put all our company projects up. We assess the project on a number of criteria. We work on customer profiles, assess the profitability and the client’s payment records. We put an expected dollar value and the expected number of people and document the plan from there’ (Owner-Manager, Company D, 2008, April).
In addition, the documented contingency plan further confirms the owner-manager’s intention to transform the once ‘single-handedly managed family business’ into a professionalised business entity without compromising the core family values of integrity and honesty:

‘We put all our values down in our company’s code of conduct. On top of that we are strategically moving the business so if anything happens to me it won’t affect the business’ (Owner-Manager, Company C, 2008, April).

Similarly, management of Company E implemented changes to their formal family governance institutions to respond to rapid change in their external environment, particularly in response to the business stakeholders’ (such as the controlling family, the firm’s clients, suppliers) demands for greater business professionalism. Nonetheless, the influence of relations on governance was still evident with the transcript inferring that to manage this tension (of family and business) the firm had two management teams:

‘A board is used for formal business meetings among family members and informal meetings for daily matters’ (Owner-Manager, Company E, 2008, April).

The interviewee from Company E further explained that they established formal ‘board’ meetings aimed at systematically managing the business decision making process. However, as the interviewee also stated, the ‘board’ only facilitated participation of family members and the functioning of this ‘board’ practically resembled a typical family business management meeting where family members gathered monthly to plan for future growth and success.

Despite this, the interview transcripts relating to pathway 3 (green line in Figure 11) and pathway 3A (dotted green line in Figure 11) suggest that formal and documented governance procedures are essential for enhancing the ability of family firms to achieve their goals, especially in building a capacity to manage the business professionally, and in turn minimise risks in the wake of strong competition in the market. Management of Company E prioritised business needs by formalising
business plans to promote clarity on issues concerned with intended outcomes of
the family firm, and how family business owners and managers aimed to achieve
their established goals (i.e. effectively separate family from business):

‘In reality I’ve seen how the family didn’t necessarily drive the business. From an economic point of view no one has a crystal ball to know what others (competitors) in the same market will do next, but at the end of the day business needs to move on to stay alive. So the company needs to change, and formalising governance is one of the strategies to keep the company grow’ (Owner-Manager, Company E, 2008, April).

Thus, the findings from this analysis of Group B firms suggest that the decisions to formalise governance is due to a number of issues. One of the ‘stand-out’ issues seems to be the management’s awareness of the ‘limit’ of relational governance. That is, Group B indicated an awareness of the limitation of relying solely on relational governance as an informal social control mechanism. While not discounting the role of the relational aspect of governance in keeping the family firm operating effectively, Group B firms recognised the lack of formal governance mechanism as a challenge in response to the ‘pull’ that external factors (e.g. strong competition) have on their ability to achieve their intended goals. As per the phase 1 finding, the aim of formalising governance is also an attempt to effectively separate the ‘intrusion’ of business issues into family life (e.g. Companies C and E). These findings highlight the challenge posed by family involvement in business, particularly in striking a balance between achieving both ‘family’ and ‘business’ goals. This finding is consistent with the concern expressed by Australian family business about balancing family welfare with business imperatives (Moores 2009), specifically on how to formalise the family role in the governance of the business.82 Hence, not surprisingly, striking a good balance between family and business is considered the biggest challenge by interviewees in the phase 1 study. As one of the interview transcripts associated with pathway 3 (green line in Figure 11) indicates:

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82 See Introduction (p.2) – In the 2013 Family Business Survey (KPMG-FBA 2013) 60 per cent compared to 29 per cent in 2011 of all respondents listed formalising the family role in the governance of the business as the sixth most important issue that was of concern to them.
‘When we (family owners and managers) were together it used to be business talk always. Now we let the business decisions stay in the formal meetings, and we can afford to spend more time with the family. We are aware of this change and we are monitoring steps to keep this going’ (Owner-Manager, Company C, 2008, April).

**Trust and Family SMEs: An ‘Unexpected’ Finding**

Another noteworthy issue emerged from the phase 1 finding is associated with the role of trust in family SMEs. Figures 9, 10 and 11 all show a pathway that links to the theme ‘Trust’, which is unconnected to the themes associated with relational governance but connected closely with the theme ‘Important’ (which is linked to ‘Business’ and/or ‘Family’). For example, the transcripts associated with pathway 5 (green line in Figure 9) help understand the relationship between these elements. When asking ‘what is important for family business?’, many interviewees identified the importance of trust in their family SMEs: ‘trust is paramount to family and business’ (Owner-Manager, Company A, 2008, April). Another interview transcript also indicates that ‘trust is very important to our family and business’ (Owner-Manager, Company C, April, 2008). An interview transcript from Company D further suggests that family owners and managers develop trust through open and honest communication: ‘I think communication is very very important because trust does not come naturally. But you need to keep the communication going about the business, and you have to trust them with the information they have’ (Owner-Manager, Company D, 2008, April). The role of trust is further informed by research findings in subsequent phases, which are presented in Chapters 6 and 7.

**Conclusion**

In conclusion, the phase 1 findings suggest that management of family SMEs have used relational governance to exert an informal level of social control that influences family business and the ability of family SMEs to achieve their economic and noneconomic goals. The research findings that clarify propositions 1, 2 and 3 illustrate that family SMEs generally use informal family institutions (doorway meetings) more frequently to discuss daily family and business issues, and formal family institutions less frequently to discuss important business decisions.
(e.g. strategies to outperform competitors). As social platforms, family institutions enable family owners and managers to meet and work together regularly, facilitate more opportunities to exchange knowledge and participate in business activities (Mustakallio, Autio & Zahra 2002; Nahapiet & Ghoshal 1998), and more importantly, create a closer relationship and stronger interaction between members of small family management units. A level of social interaction fosters a shared vision to reflect the shared family and business values and the intended goals members of the family management unit aim to achieve, or what becomes a cornerstone for shared cognition (Nahapiet & Ghoshal 1998), particularly about the business future.

During this ‘vision shaping’ process, some family firms demonstrate ‘particularism’, as members of the family management unit integrate their values with business practices and goals. By unifying ownership and management, some controlling families demonstrate ‘personalism’ by using the ‘business’ as tools to achieve family goals, or in some cases, the owner’s goals. This influences the family firm’s ability to achieve its economic and noneconomic goals. The phase 1 finding therefore suggests that the process of aligning ‘family’ with ‘business’ poses challenges to the owning-family’s ability to achieve the firm’s intended goals, especially when the firm faces external factors that are beyond control of family owners and managers, such as strong competition in the market and the client’s expectation about professionalisation of family business governance. These ‘pull’ factors have triggered some family firms to formalise governance to an extent that enables family owners and managers to ease the ‘family’ and ‘business’ tension (e.g. Company C) and prepare the firms for future business development (Companies C, D and E). The finding is consistent with Moores (2009) stating that more family SMEs acknowledge the need to plan for future growth through strategic planning and changes in governance structures, particularly when family firms encountered with challenges arising from economic and financial uncertainties. These challenges urge some family SMEs to either establish formal business meetings with non-family management participation, and/or formulate their long-term strategic plans. This in turn promotes rationality and detailed analyses when making decisions. In essence, it is this external business environment that challenges the ‘limit’ and ‘efficacy’ of relational governance in some family
firms, which in turn catalyses ‘formality’ in family business governance and influenced the firm’s ability to achieve its economic and noneconomic goals.

In keeping with the research method, the phase 1 findings informed the formulation of a survey questionnaire for use in the next phase of the study. The survey in particular sought to understand the relationship between governance practices, environmental turbulence and the ability of family firms to achieve their intended goals.
CHAPTER 6

Research Findings:
Phase 2 – Survey Questionnaire

_The family is a source, builder and user of social capital._
Bubolz (2001)

Introduction

As Chapter 5 presents, the phase 1 finding suggests that management of family SMEs have used relational governance as an informal level of social control to influence family business and the ability of family firms to achieve their economic and noneconomic goals. The text from interviews in phase 1 also indicates that the ‘externality’, such as strong competition in the market and expectations from key stakeholders, is the ‘pull’ factor to trigger some family SMEs to formalise governance, which in turn influences their ability to achieve the intended goals. To further inform the relational governance model and explore the relationship between family business governance and the embedded business environment, this chapter presents the survey findings in phase 2 to provide data to further clarify the propositions that have been carried over from phase 1.

Demographics of Family Firms - Phase 2

Descriptive data collected from survey questionnaires indicates that the vast majority of family SMEs adopted the multiple-role structure, as 90.4 per cent of the survey respondents self-identified as owner-managers (see Appendix 10, Table A for detail); 80.8 per cent of them had 100 per cent family ownership of the firm (see Appendix 10, Table B).

In addition, the majority of these firms had small family management units: 44.2 per cent of the family SMEs had three people working at the management level, followed by family firms with a team of four (7.7 per cent), or larger than four (19.3 per cent) (see Appendix 10, Table C). Furthermore, the vast majority of the
family SMEs (73.1 per cent) had two family owner-managers. Only 25 per cent of the family SMEs had one or more than one non-family member taking the management role (see Appendix 10, Table D).

Research data therefore further informs the distinctiveness of family SMEs, which are owned and managed by family management units. The survey data also helps explore the relationship between the key components of relational governance. This is discussed in the next section.

**Informing Relational Governance and Business Environment of Family Firms**

As noted in Chapter 4, the survey questionnaire (see Appendix 5) aims to provide quantitative data to further explain the phase 1 finding. To begin, the next section presents the results derived from Exploratory Factor Analysis ('EFA'). This in turn assisted in creating the correlation matrix, which informed propositions 1 to 4 associated with the relational governance model.

**Factorising Relational Governance of Family SMEs**

The items used in the questionnaire are obtained from the related family business literature, research studies and the phase 1 finding.

The next sections present the EFA results about the structural and cognitive dimension of social capital discussed in Chapter 2, and the conceptual framework of this thesis in Chapter 3 (see Figure 6, page 120).

**Structural Dimension of Social Capital in Family Firms**

EFA was undertaken on seven items measuring the structural aspect of relational governance (see Appendix 11, Table H). Two factors were extracted with an eigen value of higher than 1. These two factors were named ‘Level of Social Interaction’ ($\alpha = 0.80$) and ‘Frequency of Formal Meeting’ ($\alpha = 0.65$), which explained 65.75 per cent of total variance and indicated an acceptable reliability of the factors. The Measure of Sampling Adequacy (‘MSA’) was 0.67 indicating the appropriateness of factor analysis. Bartlett’s test of sphericity revealed a significant correlation among variables. No items were dropped as there are no multiple loading items. All loaded
onto the two factors in a conceptually meaningful and consistent manner, with a loading value of higher than 0.4. The range of factors from 0.509 to 0.964 is acceptable. The detailed information on factors, factor loadings, eigen values, alpha values and percentage of variance explained are summarised in Appendix 11, Table H.

Items from the two factors are conceptually developed from Mustakallio, Autio & Zahra (2002) and the phase 1 results. No items were dropped from the ‘Level of Social Interaction’ factor as these indicators conceptually represented the closeness of network ties among members of the family management unit. Despite the relatively low factor loading (0.511), the item ‘the family very often uses informal family meetings’ is within the acceptable range of above 0.4.

The ‘Frequency of Formal Meeting’ factor conceptually indicated that family firms established a level of formality in relation to manage family and business matters. As discussed in Chapter 1 (see page 32), a family council facilitates a venue for discussion of issues concerned with the welfare of family business, and specifically a forum to communicate the impact of family policies on business issues, such as a succession plan (Moores 2009).

**Cognitive Dimension of Social Capital: Shared Vision**

Measurement scales are not readily available to assess shared vision and views about strategic decision amongst family SMEs. This limitation makes EFA a useful vehicle to understand the underlying structure of the factor.

EFA condensed fourteen items measuring the family firm’s shared vision. Initially four factors with the eigen value higher than 1 were extracted. Multiple loading items that were dispersed among factors were excluded. Items loaded on two other factors that were not conceptually meaningful were also dropped. Hence, only two factors indicating good reliability are included for further analysis: ‘Shared Vision of Business Goals and Strategies’ (α = 0.85) and ‘Shared Vision about Succession Plan’ (α = 0.95). Items associated with ‘Shared Vision of Business Goals and Strategies’ (as per the level of factor loadings) include the level of agreement about the long-term development objectives of the firm, commitment of management to the firm’s long-term goals, open communication among family members and
sharing the same vision about the firm’s goals. Two items loaded on the ‘Shared Vision about Succession Plan’ are the level of agreement that succession planning is important to the long-term survival of the firm, and the family’s view on succession planning as a process rather than an event. The MSA was 0.73, which indicated the appropriateness of factor analysis. The Bartlett test of sphericity indicates that there is a significant correlation among variables: 47.67 per cent of the total variance was accounted for by the two factors, which contained eight items in total. The factor loading fell between 0.579 and 0.965. These loadings of 0.5 or greater were considered significant (Hair et al. 1998).

The ‘Shared Vision of Business Goals and Strategies’ factor provided a general view of family SMEs regarding business future. The ‘Shared Vision about Succession Plan’ factor highlighted the significance of succession plan to a family firm’s survival, which in turn can influence the family firm’s ability to continuously perform its intended goals. The detailed information on factors, factor loadings, eigen values, alpha values and percentage of variance explained are summarised in Appendix 11, Table I.

**Business Decision**

EFA was undertaken on sixteen items to uncover the underlying factor structure of business decisions in a family firm. Initially five factors with the eigen value higher than 1 were extracted. After excluding all the multiple loading items, two factors were dropped as there was only one item loaded on these factors respectively.

Three factors were then extracted as they contained more theoretical explanatory power. These were: ‘Formalise Family from Business’ ($\alpha = 0.89$) (loaded with items including a formal document that describes the relationship between family and business), ‘Vision-Strategy Alignment’ (loaded with items that indicate whether the family firm’s strategies are consistent with the shared vision, and if family members have strong commitment to their decisions) ($\alpha = 0.77$) and ‘Top Management Involvement in Business Decisions’ ($\alpha = 0.74$). The range of factor loadings of these factors from 0.63 to 0.88 was acceptable (see Appendix 11, Table J for detail).
**Strategic Planning**
A total of thirteen items were used to explore the ability of family firms to achieve their goals, including strategic planning. Initially five factors with eigen value higher than 1 were extracted. After dropping the multiple loading items on two factors, three factors were eventually extracted for further analysis. The MSA of 0.682 and the Bartlett’s test of zero indicated the appropriateness of factor analysis. These three factors ‘Long-term Focus’ ($\alpha = 0.79$; loaded with items including the existence of long-term planned strategies and whether the firm has a clear vision of long-term business development), ‘Analytical Focus’ ($\alpha = 0.63$; loaded with items such as whether family firms develop alternative business strategies and conduct careful market analysis before taking action) and ‘Wait and See with Caution’ ($\alpha = 0.77$; loaded with items such as the firm’s approaches on making decisions) explained 29.81 per cent, 12.76 per cent and 9.08 per cent of total variance respectively. All factors had the factoring loading ranging from 0.493 to 0.829. The detailed information on factors, factor loadings, eigen values, alpha values and percentage of variance explained are summarised in Appendix 11, Table K.

**Response to Business Environment**
A total of seven items were used to explore the family firm’s response to the embeddedness such as business environment. EFA was conducted on those items from which two factors were produced. Out of seven items, one item was dropped as it loaded on both factors simultaneously. The two factors were labelled ‘Rational Response’ ($\alpha = 0.77$; loaded with items such as whether family firms gather feedback from key clients/customers, and put a substantial amount of thoughts and analysis into key decisions) and ‘Quick Response’ ($\alpha = 0.75$; loaded with items including if family firms use gut-feel to choose strategies and their emphasis on the immediate future in making business decisions), which both indicated good reliability. The MSA was 0.65 and Bartlett’s sphericity was zero. The detailed information on factors, factor loadings, eigen values, alpha values and percentage of variance explained are summarised in Appendix 11, Table L.

**Factors Contributing to Business Growth**
EFA was undertaken on thirteen items describing factors that contributed to recent business growth of a family firm. Initially three factors were extracted with the eigen value higher than 1. After excluding five multiple loading items, one factor
was dropped as there was only one item loaded on this factor. These two factors named ‘Employee Performance’ ($\alpha = 0.85$; loaded with items including staff with high productivity/relevant expertise and knowledge and staff capability of marketing and selling products) and ‘Personal Connection with Suppliers/Customers’ ($\alpha = 0.56$; loaded with items including CEO/Owner-Manager’s strong personal relationships/networks with suppliers and/or customers) explained 51.1 per cent of total variance. The MSA was 0.704 and the Bartlett’s test was zero, which indicated the appropriateness of factor analysis. However, the ‘Personal Connection with Suppliers/Customers’ factor indicated a low reliability of 0.56. This factor was therefore deleted from the study analysis. The detailed information on factors, factor loadings, eigen values, alpha values and percentage of variance explained are summarised in Appendix 11, Table M.

**Business Performance against Competitors**

There were eight items used to explore business performance against competitors. EFA was conducted on those items from which two factors were produced. Out of eight items, one item was dropped as it loaded on both factors simultaneously. The two factors indicating good reliability, labelled ‘Product/Service Performance’ ($\alpha = 0.86$’ loaded with items including product/service quality) and ‘Sales/Revenue Growth’ ($\alpha = 0.76$) with an eigen value of 4.09 and 1.52 respectively, explained 70.05 per cent of total variance. The MSA was 0.78 and Bartlett’s sphericity was zero. The detailed information on factors, factor loadings, eigen values, alpha values and percentage of variance explained are summarised in Appendix 11, Table N.

However, these factors were not used for further analysis, as there was a substantial amount of missing values on these factors. It is believed that respondents are unsure about their competitors’ performance. Hence the questions remain unanswered on the survey questionnaire.

**Business Environment**

EFA was undertaken on sixteen items to uncover the underlying factor structure of business environment of family firms. Initially four factors with the eigen value
higher than 1 were extracted. After excluding the multiple loading items, one factor was also dropped as there was only one item loaded on this factor.

Three factors were then extracted as they had more theoretical explanation power. The first factor, ‘Technology-oriented Environment’ ($\alpha = 0.68$; loaded with items such as whether the production/technology is often subject to change in the environment), with the eigen value of 2.97 explained 24.79 per cent of total variance and indicated fair reliability. The second factor, ‘Business Threats to Survival’ ($\alpha = 0.80$; loaded with items such as price competition and threats posed by business environment), had an eigen value of 2.304, accounted for 19.2 per cent of total variance and had good reliability. The third factor, ‘Market Predictability’ ($\alpha = 0.75$; loaded with items including whether business is highly stable and predictable), had an eigen value of 1.8, accounted for 15 per cent of total variance and had good reliability. The detailed information on factors, factor loadings, eigen values, alpha values and percentage of variance explained are summarised in Appendix 11, Table O.

**Reasons for No Potential Family Successors**

There were eight items to explore noneconomic performance outcomes, such as family successions, with a specific focus on the reasons for the absence of family successors. EFA was conducted on those items from which two factors were produced. Out of eight items, two items were dropped as it loaded on both factors simultaneously. Two factors, labelled ‘The Generation Gap’ ($\alpha = 0.91$; loaded with items such as family managers from the next generation complaining about the lack of autonomy in the family firm, personality clash between generation, and poor relationships with the next generation) and ‘Lack of Succession Interest & Imminence’, ($\alpha = 0.61$) had the eigen value of 3.95 and 1.82 respectively, which explained 72.1 per cent of total variance. The MSA was 0.69 and Bartlett’s sphericity was zero. The factor ‘Lack of Succession Interest/Imminence’ indicated a reliability of 0.61, which was slightly higher than the recommended benchmark of 0.60 for an exploratory study. The detailed information on factors, factor loadings, eigen values, alpha values and percentage of variance explained are summarised in Appendix 11, Table P.
These factors were not used for the correlation analysis because there was a substantial number of missing values. This might be partly due to the fact the majority of participated family firms had not chosen a family successor or had a formalised succession plan (see Appendix 10, Table E). Hence some family firms declined to comment on these issues.

**Correlation Matrix**

Table 11 presents the means, standard deviations, and correlations of variables for the 52 surveyed family firms. The internal consistencies of items in the research measures are reported in parenthesis along the diagonals of the correlation table. Table 11 also reports the Cronbach’s alphas for the measures of variables. They range from 0.63 to 0.95. The reliability levels are all above the minimum level of 0.6 required for an exploratory study, as recommended by Hair et al. (1998).

More importantly, Table 11 reveals the significant correlations between the research constructs in this study. When examining the interplay between the structural and cognitive dimensions of relational governance, the table reveals a negative but significant relationship between the size of the family management unit and the level of social interaction. As expected, a shared vision of business strategies and goals correlates positively to the level of social interactions among members of the family management unit, and the ability of family firms to achieve their intended goals, such as business decisions that align visions with strategies, and strategic plans with long-term focus. Correspondingly, a level of social interaction between family members through relational governance positively correlates to business decisions that facilitate the vision-strategy alignment, and long-term focused strategic plans.

There are other significant correlations between the variables. For instance, a board existence correlates negatively and significantly to the level of social interaction and market predictability. In addition, there is a positive correlation between a shared vision about succession and the frequency of formal meeting, strategic plan with a long-term focus and rational decision making. A shared vision on succession further correlates positively to a business environment featured with threats to survival and market predictability.
As reported in Table 11, the frequency of a formal meeting is positively correlated with rational decision making, and the business decision about formalising the relationship between family and business. This business decision also positively and significantly correlates to top management involvement in decisions, strategic planning with a conservative decision making focus, rational decision making and technology-oriented business environment. Furthermore, Table 11 shows that a long-term focused strategic plan is positively and significantly related with rational decision making, business growth derived from staff performance and market predictability.

The positive and significant correlation between a risk-averse strategic plan and variables such as rational decision making and a technology-oriented environment is also shown in the Table. Similarly, a technology-oriented business environment positively and significantly correlates to rational decision making and business growth derived from staff performance.

While the correlation matrix helps understand relational governance and business environment of family firms participated in phase 2, it does not help illustrate the role of trust in family firms. The issue of trust is further informed by the research finding in phase 3, which is presented in Chapter 7.

In short, the correlation analysis reveals only the bivariate relationships between the research constructs in the conceptual framework of the thesis study. Hence, it does not control for the effect of other variables and does not take the multilevel nature of the data into account.
**Table 11: Descriptive Statistics, Scale Reliabilities and Correlations of Variables**

<table>
<thead>
<tr>
<th>Variables</th>
<th>N</th>
<th>Mean</th>
<th>s.d.</th>
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<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
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<th>11</th>
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</thead>
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<tr>
<td>1. Board</td>
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<td>0.47</td>
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<td></td>
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</tr>
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<td></td>
</tr>
<tr>
<td>4. Size (Family Mgt Unit)</td>
<td>52</td>
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<td>1.65</td>
<td>0.10</td>
<td>0.27</td>
<td>0.06</td>
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<td>5. SV (Strategy &amp; Goal)</td>
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<td>4.02</td>
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<td>0.09</td>
<td>0.24</td>
<td>(0.37)**</td>
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<td>6. SV (Succession)</td>
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<td>7. Level of SI</td>
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<td>0.76</td>
<td>(0.50)**</td>
<td>(0.09)</td>
<td>0.19</td>
<td>(0.35)*</td>
<td>0.49**</td>
<td>0.03</td>
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</tr>
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<td>8. Fr. of Formal Meeting</td>
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<td>0.08</td>
<td>0.17</td>
<td>0.17</td>
<td>0.25</td>
<td>0.16</td>
<td>0.39**</td>
<td>0.09</td>
<td>(0.65)</td>
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<tr>
<td>9. (BD) Fml FB R'ship</td>
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<td>1.19</td>
<td>0.14</td>
<td>0.30**</td>
<td>0.34*</td>
<td>0.16</td>
<td>0.03</td>
<td>0.25</td>
<td>(0.20)</td>
<td>0.48**</td>
<td>0.89</td>
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<td>10. (BD) V-S Alignment</td>
<td>52</td>
<td>3.85</td>
<td>0.77</td>
<td>(0.27)</td>
<td>(0.09)</td>
<td>0.01</td>
<td>(0.23)</td>
<td>0.49**</td>
<td>0.06</td>
<td>0.47**</td>
<td>(0.08)</td>
<td>(0.03)</td>
<td>(0.77)</td>
<td></td>
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<td>11. (BD) T-mgt Inv.</td>
<td>52</td>
<td>3.53</td>
<td>0.98</td>
<td>0.06</td>
<td>0.17</td>
<td>0.06</td>
<td>0.13</td>
<td>0.03</td>
<td>0.21</td>
<td>(0.01)</td>
<td>0.23</td>
<td>0.38**</td>
<td>(0.02)</td>
<td>(0.74)</td>
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<tr>
<td>12. (Splan) LT Focus</td>
<td>52</td>
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<td>0.87</td>
<td>0.09</td>
<td>0.27</td>
<td>0.26</td>
<td>0.14</td>
<td>0.41**</td>
<td>0.60**</td>
<td>0.31*</td>
<td>0.27</td>
<td>0.04</td>
<td>0.16</td>
<td>0.05</td>
<td>(0.79)</td>
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<td>13. (Splan) Analytical Focus</td>
<td>52</td>
<td>3.45</td>
<td>0.85</td>
<td>(0.08)</td>
<td>0.34*</td>
<td>0.16</td>
<td>0.09</td>
<td>0.11</td>
<td>0.04</td>
<td>0.04</td>
<td>0.18</td>
<td>0.15</td>
<td>(0.08)</td>
<td>0.10</td>
<td>0.25</td>
<td>(0.65)</td>
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<tr>
<td>14. (Splan) ‘Wait &amp; See’</td>
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<td>2.94</td>
<td>0.75</td>
<td>0.11</td>
<td>0.16</td>
<td>0.19</td>
<td>(0.12)</td>
<td>0.13</td>
<td>0.04</td>
<td>0.11</td>
<td>0.03</td>
<td>0.37**</td>
<td>0.26</td>
<td>0.10</td>
<td>(0.06)</td>
<td>(0.20)</td>
<td>(0.77)</td>
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<tr>
<td>15. Rational Response</td>
<td>52</td>
<td>3.58</td>
<td>0.69</td>
<td>0.17</td>
<td>0.28*</td>
<td>0.08</td>
<td>0.01</td>
<td>0.24</td>
<td>0.39**</td>
<td>(0.09)</td>
<td>0.46**</td>
<td>0.28*</td>
<td>0.00</td>
<td>0.19</td>
<td>0.47**</td>
<td>0.34*</td>
<td>(0.09)</td>
</tr>
<tr>
<td>16. Quick Response</td>
<td>52</td>
<td>2.92</td>
<td>0.85</td>
<td>0.04</td>
<td>0.09</td>
<td>0.34*</td>
<td>(0.18)</td>
<td>0.19</td>
<td>(0.18)</td>
<td>(0.04)</td>
<td>0.17</td>
<td>0.21</td>
<td>(0.07)</td>
<td>(0.10)</td>
<td>(0.20)</td>
<td>0.24</td>
<td>0.29*</td>
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<td>17. (BP) Staff Performance</td>
<td>52</td>
<td>3.62</td>
<td>1.23</td>
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<td>0.12</td>
<td>0.21</td>
<td>0.19</td>
<td>0.11</td>
<td>0.21</td>
<td>0.31*</td>
<td>0.22</td>
<td>0.26</td>
<td>0.06</td>
<td>0.15</td>
<td>0.43**</td>
<td>0.06</td>
<td>0.23</td>
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<tr>
<td>18. (BE) Tech-Oriented</td>
<td>52</td>
<td>3.24</td>
<td>0.91</td>
<td>0.17</td>
<td>0.29*</td>
<td>0.12</td>
<td>0.07</td>
<td>(0.14)</td>
<td>0.24</td>
<td>0.08</td>
<td>0.25</td>
<td>0.30*</td>
<td>(0.16)</td>
<td>0.26</td>
<td>0.23</td>
<td>0.40**</td>
<td>(0.01)</td>
</tr>
<tr>
<td>19. (BE) Threats to Survival</td>
<td>52</td>
<td>3.06</td>
<td>0.99</td>
<td>0.08</td>
<td>0.18</td>
<td>0.22</td>
<td>0.11</td>
<td>0.06</td>
<td>0.29*</td>
<td>(0.06)</td>
<td>0.20</td>
<td>0.23</td>
<td>0.05</td>
<td>0.19</td>
<td>0.11</td>
<td>0.02</td>
<td>0.22</td>
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<td>20. (BE) Mkt Predict.</td>
<td>52</td>
<td>2.64</td>
<td>0.95</td>
<td>0.29*</td>
<td>0.40**</td>
<td>0.11</td>
<td>0.13</td>
<td>0.16</td>
<td>0.33*</td>
<td>(0.05)</td>
<td>0.19</td>
<td>0.22</td>
<td>0.17</td>
<td>0.03</td>
<td>0.40**</td>
<td>(0.22)</td>
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Table 11: Descriptive Statistics, Scale Reliabilities and Correlations of Variables Continued

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<tr>
<th>Variables</th>
<th>15</th>
<th>16</th>
<th>17</th>
<th>18</th>
<th>19</th>
<th>20</th>
</tr>
</thead>
<tbody>
<tr>
<td>15. Rational Response</td>
<td>(0.77)</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>16. Quick Response</td>
<td>(0.02)</td>
<td>(0.75)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>17. (BP) Staff Performance</td>
<td>0.27</td>
<td>(0.12)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18. (BE) Tech-Oriented</td>
<td>0.50**</td>
<td>0.03</td>
<td>0.43**</td>
<td>(0.68)</td>
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<tr>
<td>19. (BE) Threats to Survival</td>
<td>0.04</td>
<td>0.11</td>
<td>0.18</td>
<td>(0.20)</td>
<td>(0.80)</td>
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</tr>
<tr>
<td>20. (BE) Mkt Predict.</td>
<td>0.18</td>
<td>(0.13)</td>
<td>(0.05)</td>
<td>(0.06)</td>
<td>0.03</td>
<td>(0.75)</td>
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</tbody>
</table>

Notes: there are no missing cases for all variables.


Board and documented succession plan were dummy coded whereby 1 = yes and 0 = no.

Coefficient alpha reliability estimates are in parentheses on the diagonal of the correlation table.
*Correlation is significant at p<0.05
**Correlation is significant at p<0.01
Correlation Analysis to Inform the Relational Governance Model

The correlation analysis determines the significant direct relationships between the main research variables of the relational governance model and its associated propositions 1 to 4. The next sections present the survey data that supports these propositions.

Proposition 1: Family Institutions and Level of Social Interaction

In contrast to the phase 1 finding, the survey result does not indicate any relationship between the variety of family institutions (for example, informal/formal family meeting) and the level of social interaction among family members (scale reliability=0.09, hence not significant). Notwithstanding this, the exploratory nature of EFA produced some noteworthy results. As discussed in Chapter 3 (pages 79-80), family institutions consisted of informal get-togethers, formal family meetings and family councils, all of which facilitated links between family and business (Mustakallio, Autio & Zahra 2002). These meeting opportunities can in turn enhance the level of social interactions among members of the family management unit.

While an informal get-together is categorised as an informal family institution in the relational governance model, the EFA result indicates some differences. According to Table H (see Appendix 11), the item ‘the family very often uses informal family meetings’ was in fact loaded with other items informing the ‘social interaction’ variable, rather than the ‘family institution’ variable. This result seemingly implies the ‘informality’ associated with social interactions among family members. This finding also appears to echo with the phase 1 finding, which highlights the informal nature of social encounters among family members. However, this result is eventually rejected as it contradicts the literature as presented in Chapter 3 (see page 79) on family institutions, which include informal get-togethers, formal family meetings, family councils that represent and integrate the needs and interests of the owner-family members and link the family and the company (Mustakallio, Autio & Zahra 2002).
**Proposition 2: Roles of Family Members, Size of the Family Management Unit and Social Interaction**

As Table C (see Appendix 10) shows, around 81 per cent of survey respondents have small family management units (i.e. less than or equal to four family members involved in the firm's ownership and control). The correlation matrix also indicates a significant relationship exists between the size of family management unit and the level of social interaction (-0.35). Hence, the smaller the size of the management unit, the higher the level of social interaction the family members possess. This finding also reaffirms the findings in phase 1, whereby all family firms illustrate that a small family management unit working together daily *increases* the level of social interactions among family members.

**Proposition 3: Social Interaction and Shared Vision**

Consistent with the phase 1 finding, the correlation matrix indicates that the level of social interaction correlates positively and significantly to a shared vision about strategies and goals, such as the family’s agreement about the long-term development objectives of the firm (0.49). This result suggests that the higher the level of social interaction between family members, the more likely they are to share a vision about the business future, including the family's commitment to the firm’s long-term goals. This scenario is generally consistent with the phase 1 findings, as the text from interviews illustrates that closeness of social relationships between members of the family management unit enables family members to develop their shared vision about their firm’s future.

In addition, the descriptive results from the survey questionnaire in phase 2 further illustrate that creating a shared vision that aligns family goals with business objectives remains a constant challenge to family firms. For instance, around 68 per cent of respondents disagreed that the family firm is ‘just a way to earn a living’, and around 70 per cent agreed that family managers regard their business as a way to not only ‘earn a living (business) but also retain family values (family)’.

Interestingly, only 28 per cent of survey respondents disagreed that priority should be given to family issues over business issues; and over half of the total respondents

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83 See the summary table of noteworthy survey findings in Appendix 7, p.352.
disagreed that they ‘always find it difficult to separate family issues with business issues’.

**Proposition 4: Relational Governance and the Ability of Family Firm's to Achieve Intended Goals**

Consistent with the phase 1 finding, the results from the correlation matrix illustrate the interrelationships between structural and cognitive social capital of relational governance. As previously discussed in this chapter (see page 203), there is a negative correlation between the size of the family management unit and the level of social interaction ($r = -0.35$). Another correlation also illustrates a relationship between the level of shared vision (regarding business strategy and goal) among family members and size of the family management unit ($-0.37$). This correlation seems to suggest that a smaller family management unit positively affects the level of social interaction$^{84}$, which in turn influences the level of shared vision among family members. On the other hand, a large family management unit may diminish the level of social interaction and shared vision among key decision makers of the family firm.

The correlation matrix also indicates that besides the positive correlation between the level of shared vision (regarding business strategy and goal) and the level of social interaction ($r=0.49$)$^{85}$, the level of social interaction among family members also correlates positively and significantly to business decisions that align strategies with vision (0.47). This suggests that the higher the level of shared vision about the firm’s goals and strategies, the higher the level of strategic decision commitment they have to ensure the firm’s strategies are aligned with the shared vision.

The survey results further clarify proposition 4 by revealing the interrelationships between family business governance, the embedded business environment and the ability of family firms to achieve their intended goals. These are presented in the next section.

$^{84}$ See the findings that inform proposition 2 on page 203 in this chapter,
$^{85}$ See the findings that inform proposition 3 on page 203 in this chapter.
The Correlations between Family Business Governance, Business Environment and the Ability of Family Firms to Achieve Intended Goals

Data collected from the survey questionnaire in phase 2 further explains the exploratory issues that have been carried over from phase 1, particularly the context of ‘externality and the ‘pull’ factor that triggers some family SMEs to formalise governance. The following correlations help inform the relationship between family business governance and the embedded business environment:

- Formalisation of Governance Practices and the Ability of Family Firms to Achieve their Intended Goals
- Formalisation of Governance Practices and Embedded Business Environment
- Formalisation of Governance Practices and Rational Decision Making

*Formalisation of Governance Practices and the Ability of Family Firms to Achieve their Intended Goals*

The survey results indicated the polarised views on the role of formal governance among family SMEs. Descriptive statistics suggest that less than half of the family SMEs acknowledged the importance of board establishment to their long-term survival and growth. While 42.3 per cent of the firms agreed that a board was unnecessary as it constrained the owner-manager's control on a firm's operation, a similar proportion disagreed or disagreed strongly (see Appendix 10, Table F). Furthermore, among the family SMEs that have boards, almost 60 per cent of them did not facilitate non-family directors’ participation (see Appendix 10, Table G).

This result substantiates the phase 1 finding, whereby some family firms have a self-proclaimed ‘board’ with the participation of family owners and/or managers only. In other words, it resembles a normal monthly business meeting. Despite this self-defined ‘formal governance’ mechanism, the aim to inject this formality in business operations is clear: that is, family firms intend to separate family from business by formalising the family and business relationship, with the aim of achieving economic and noneconomic goals (e.g. family harmony). Companies C and E (phase 1) perceived this step as critical to the ability of family SMEs to achieve their intended goals.
The correlation matrix also indicates that business growth correlates positively and significantly to a family firm’s decision to formalise the family and business relationship, such as the existence of a formal document that describes the relationship between family and business (0.34). Hence, the higher the level a family agreed to formalise family involvement from business, the higher the business growth a family firm had achieved over the past three years.\textsuperscript{86}

\textit{Formalisation of Governance Practices and Embedded Business Environment}

The correlation matrix reaffirms the phase 1 findings by illustrating the correlations between family business governance, specifically the formalisation of governance practices and the embedded business environment of family firms. For example, the phase 2 finding suggests that a documented succession plan correlates positively and significantly to a technology-oriented environment (0.29) and market predictability (0.40). Hence, the more likely a family firm had a documented succession plan, the higher the likelihood that the firm was in a technology-oriented environment or the business environment where the market is predictable. Furthermore, the correlation matrix indicated that a long-term strategic plan correlated positively and significantly to market predictability (0.40). The results suggest that the more likely a family strategically planned within a long-term framework, the more likely they perceived their markets as stable and predictable.

\textit{Formalisation of Governance Practices and Rational Decision Making}

The correlation matrix also indicates that there is a positive and significant correlation between the frequency of formal meetings and the business decision to formalise the relationship between family and business (0.48). In addition, a significant correlation exists between the frequency of formal meetings and the ability of family firms to perform, such as making a rational decision (for example, forecasting performance, or gathering feedback from clients, rather than gut-feel decisions) in response to the embedded business environment (0.46). Hence, the more frequently a family firm used formal meetings, the more likely they would respond to their business environment in a rational manner. Likewise, the decision to formalise the ‘family’ and ‘business’ relationship is positively correlated with the firm’s rational responses to the embedded business environment, such as generating

\textsuperscript{86} At the time of conducting this survey (i.e. September 2008), these three years indicated the time period between 2005 and 2007.
feedback frequently from clients/customers, and putting a substantial amount of thoughts and analysis into key strategic decisions (0.28). This correlation implied that the higher the level of the family members’ agreement to formalise the family and business relationship, the more likely they were to adopt a rational approach (for example, analyses of business strategies) to respond to business uncertainties. This survey result supports the argument that managers tend to employ an analytical approach to make decisions in an unstable business environment caused by changes in technology and marketplace (Bourgeois & Eisenhardt 1988).

In addition, the correlation matrix indicates a significant correlation between business growth and quick response, such as using gut-feel to choose strategies due to time pressure, or putting emphasis on the immediate future in making business decisions (with a coefficient of 0.34). In other words, the quicker the firm responds to the business environment, the more likely this contributes to business growth. The survey finding also depicts that a long-term strategic plan correlates positively and significantly to rational response (with a coefficient of 0.47). Hence, the more likely a family firm planned strategically within a long-term timeframe, the more likely they responded rationally to the business environment.

In summary, the survey results provide further details to illustrate the interrelationships between formalisation of governance practices and the family firm’s embedded contexts. Participated family firms tend to professionalise governance in response to external factors such as market instability. This process appears to influence the ability of family firms to achieve their goals, such as encouraging family leaders to adopt a ‘rational’ approach in decision making (i.e. more emphasis on long-term strategic planning supported by business analyses).

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87 Proposition 7 of this thesis is ‘Economic and institutional (mixed) embeddedness influence family business governance and the ability of family firms to achieve their economic and noneconomic goals. The economic dimension of mixed embeddedness can be contextualised by the market conditions that determine business activities. This can be further discussed by examining environmental turbulence, which can be defined as factors outside the organisation that have a major influence on the success or otherwise of the business (Glassop, Hagel & Waddell 2008). These factors include the marketplace, technology and competition.
The survey results also motivated the researcher to further evaluate on literature about the social dimension of mixed embeddedness. 88 This completed the development of a conceptual framework with other propositions (see Chapter 3, pages 109-110) and provided findings to summarise the conceptual framework of the present study. 89 In keeping with the methodological approach adopted for the thesis, the survey data in phase 2 and the literature about social embeddedness inform the focus of data collection of case studies in phase 3. Hence, the next chapter presents the case finding about how mixed embeddedness influences family business governance and the ability of family firms to achieve their economic and noneconomic goals.

**Conclusion**

In conclusion, the survey findings further clarify the relational governance model. Albeit the survey results do not indicate any relationship between family institutions and the level of social interaction (proposition 1), other findings generally support propositions 2, 3 and 4. It also appears that this governance mechanism subsequently influences the ability of family firms to achieve their targeted goals, such as commitment to strategic decisions, strategic planning and succession planning.

While elaborating the relational governance model, the survey finding also reveals more results to explain the exploratory issues in phase 1 (i.e. the interrelationship between family business governance and the ‘pull’ factor embedded in business environment) and subsequently assist in ‘moving beyond’ the discussion of this conceptual framework. The next chapter therefore presents phase 3 finding to further inform the study’s theoretical model. 90

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88 As discussed in Chapter 3 (p. 97), mixed embeddedness is a concept that encompasses the crucial interplay between the social, economic and institutional contexts in which a firm operates (Kloosterman, Van der Leun & Rath 1999). According to Granovetter (1985), social embeddedness indicates that actions of people are conditioned by their locations and social ties or networks based on concrete and ongoing personal relations.

89 See pp.200-201 for Table 11: the Correlation Matrix.

90 See Chapter 3, Figure 6, p. 120.
CHAPTER 7

Research Findings:
Phase 3 – Case Study

The family is a source, builder and user of social capital.  
Bubolz (2001)

As a result of established patterns of interactions and involvement, families likely possess an abundance of internal network ties that are appropriable to the family firm.  
Pearson, Carr & Shaw (2008)

Social capital represents the ability of people to work together. From the perspective of organisations with long-term continuity goals, such as family firms, realising the value of social capital requires that it be effectively transferred and managed.  
Steier (2001a)

Introduction

The aim of this chapter is to corroborate the findings from the first and second phases and the additional propositions that were developed after conducting the phase 2 study.

As discussed in Chapter 4, the case studies in phase 3 comprise all family SMEs, which have two or more family owner-managers and family managers in the family management unit. The cases were randomised in relation to industry, generation and gender. In addition, as Table 8 (pages 157-158) indicates, they adopted a variety of governance approaches ranging from informal relational governance to an integrative approach drawing on relational and formal governance mechanisms.
Informing the Relational Governance Model

This chapter aims to report findings in phase 3 as per each proposition of the proposed conceptual framework (see Figure 6, page 120) and how the findings in phase 1 and phase 2 help inform the relational governance model.

Proposition 1: Family Institutions and the Level of Social Interaction

Consistent with the findings in phase 1, phase 3 findings re-affirm that there are two levels at which family institutions facilitate social interaction: informal and formal. However, this analysis elaborates our understanding about the conditions that foster the use of these institutions by family business.

Figure 12: Relational Governance – All Family Firms (Phase 3)

Note: paths colour coded – path 1 (red); path 2 (amber); path 2A (amber dash); path 3 (black); path 4 (green)

The transcript quotes associated with pathway 1 in Figure 12 (red line), which connects the descriptor ‘family’ within the theme ‘Business’ with ‘informal’ within the theme ‘Meetings’ through ‘daily’ and ‘meetings’, suggest that informal family
institutions were used because they were considered convenient and time-efficient in relation to resolving both daily family and/or business-oriented matters: ‘I (the interviewee) meet up with key decision makers for informal meetings daily. Meeting frequently helps create a closer social interaction with your managers’ (CEO, Company LI, 2009, 18 August) and ‘(It was easy to) meet up every day with other key decision makers. By having informal meetings, all of us have a chance to get updated of what happens in the day’ (Marketing and Administration Manager, Company QM, 2009, 25 August). Nonetheless, informal family institutions were important to create a shared vision amongst the family members about the economic and noneconomic goals for the family business: ‘daily informal meetings increase social interaction among ourselves as managers, so we understand that we are all on the same page’ (Managing Director, Company AM, 2009, 18 September).

On the other hand, other transcripts in pathway 1 (red line in Figure 12) (that connects the descriptor ‘family’ with the theme ‘Formal’ through ‘Daily’ and ‘Meetings’) indicate that the use of formal family institutions is to ‘draw a line between family and business matters, especially when the family works almost every day in the company’ (Managing Director, Company MC, 2009, 1 September). The findings elaborate that family businesses subsequently used formal family institutions to discuss predominantly business matters, including strategic decisions (e.g. Cases AM, AP, LI and QM) such as large expenditure on business projects, and long-term goal setting (e.g. Cases FR, WO). These meetings were held fortnightly (e.g. Cases LI, QM) or monthly (e.g. Case MC). Transcripts relating to pathway 2 (amber line that connects the descriptor ‘family’ with ‘business’ and ‘Board’) indicate that ‘we (members of the family firm) have board meetings and we use it more as a platform for family members to exchange business ideas and opinions’ (CEO, Company LI, 2009, 18 August) and similarly, ‘we (members of the family firm) have board meetings among four of us (all family members) to discuss both family and business matters’ (Manager, Company WO, 2009, 14 September).

Nonetheless, there remains ambivalence by family businesses about using formal family institutions to separate discussions about family and business matters. The influence of social embeddedness in creating this ambivalence can be noted in the transcripts associated with pathway 2A (amber dashed line that connects ‘family’ with ‘business’ and the theme ‘Management’), which illustrate the opportunity the
family institutions present to include nonfamily members in business-related
discussions: ‘(we hold) management meetings every month to discuss important
business matters. We also have leadership meetings every month to talk more about
work practices and values. These meetings are specifically for supervisors at the
management level’ (CEO, Company AP, 2009, 4 September) and ‘These meetings
aim to get inputs and advice from professionals outside the company. We have an
independent chair and they will bring skills to the table’ (Managing Director,
Company MC, 2009, 1 September). However, the relationship between using
family institutions to create a level of social interaction that generates a shared
vision about the goals for the family business also emerged: ‘We reviewed the
previous target and evaluated where we were up to. Basically formal management
meeting is a way to see where we are at and what we have to do to pursue our
business strategies’ (Manager, Company WO, 2009, 14 September).

In other words, both informal and formal family institutions become social platforms
for the family management unit to develop a shared vision about the family business:

“We (family owners and managers) use formal meetings to discuss
important business decisions for sales and customer service. We also have
external consultants to come and attend our formal meetings every six
months. In these meetings we normally discuss current and future
business strategies, ways to keep us move forward. For the day to day
meetings, they are pretty informal – someone can always knock on my
door and get together to discuss daily family or business matters’
(Owner-Manager, Company LC, 2009, 12 September).

In summary, these findings therefore suggest that family businesses utilise a variety
of family institutions to foster a level of social interaction among members of the
family management unit to develop a shared vision about the economic and
noneconomic goals for the family business. The next sections further discuss these
findings.
Proposition 2: Roles of Family Members, Size of the Family Management Unit and Social Interaction

Phase 3 findings re-affirm results in both phases 1 and 2 that there is a relationship between the size of the family management unit and levels of social interaction. A small family management unit allows key family members to have social interactions frequently and strengthen their social ties. While enhancing levels of social interaction and closeness among members of the family management unit, frequent meetings can take place because the size of the family management unit is small. This subsequently allows family members to discuss the future goals of family firms (see e.g. Cabrera-Suarez, De-Saa Perez & Garcia-Almeida 2001; Habbershon & Astrachan 1997). Transcripts associated with pathway 1 (red line in Figure 12) illustrate this: ‘Family plays a dominant role in our daily lives and eventually we become one unit, and you work for the betterment of all’ (CEO, Company LI, 2009, 18 August) and ‘We all get on well, work together for long hours, we are here (the company) everyday and we just love being together, being able to do things with your own family’ (Operations Manager, Company HD, 2009, 14 September).

Nonetheless, the ‘dark side’ to working with family in a business was also evident: ‘It is not easy to work with siblings and parents as business partners on the professional level. The fine line cuts in between the role of parent in the family unit, and the role of the child. These roles are sort of intertwined as always’ (CEO, Company LI, 2009, 18 August).

On the other hand, the smallness of the size of the family management unit can also have a positive effect. Transcripts associated with pathway 3 (black line in Figure 12, connecting the descriptor ‘family’ with ‘social’ through other descriptors ‘daily’, ‘meetings’, ‘decision’, ‘meet’ and ‘social’) illustrate the influence of ‘particularism’, whereby the family views the firm as their own business (Demestz & Lehn 1985). When considering working for the family interest, ‘particularism’ assists in fostering family members’ passion to the business, mainly because ‘what we achieve is for ourselves’ (Marketing and Administration Manager, Company QM, 2009, 25 August). The alignment of family values and business imperatives can provide an incentive for the success of family firms (James 1999b), and importantly, create a shared vision. The text from interviews illustrates that:
‘I think family business is about creating wealth within the family and creating opportunities for the family but also making sure that we have a lifestyle we are after’ (Marketing and Administration Manager, Company QM, 2009, 25 August).

In summary, the Phase 3 findings re-affirm the relationship between size of the family unit and levels of social interaction. The potential this holds is almost for certain that the opportunity to develop a shared vision about the economic and noneconomic goals for the family business emerges, notwithstanding the suggestion in the transcripts that this may not always create a positive effect.

**Proposition 3: Shared Vision and Social Interaction**

Consistent with results in both phases 1 and 2, phase 3 findings re-affirm that there is a relationship between levels of shared vision and social interaction. The proximity of themes ‘Social’, ‘Daily’ and ‘Meeting’ that cluster around ‘Vision’ (shown in Figure 12) and the interview transcripts associated with **pathway 4** (green line in Figure 12, connecting the theme ‘Business’ with ‘Vision’ through ‘Meeting, ‘Daily’ and ‘Social’) illustrate that through family institutions, frequent social interactions between family members allow them to develop their shared vision about the firm’s future: ‘we all want the business to succeed and by doing that we need to have a shared view of how we can achieve that, for example to provide quality service to clients and suppliers’ (Managing Director, Company LC, 2009, 24 August).

Consistent with findings in phase 1, transcripts associated with **pathway 4** (green line in Figure 12) also illustrate the role of family values, culture and attitude in creating a shared vision, which should be ‘aligned with the core values and culture of the business’ (Managing Director, Company AM, 2009, 18 September) and demonstrated in their business practices in relation to ‘how we should run our business’ (CEO, Company AP, 2009, 4 September) and potentially help sustain the competitive advantage of family firms (KPMG Family Business Survey 2011, p.6).

The interview transcripts associated with **pathway 1A** (blue dashed line in Figure 13, extending from pathway 1 to the descriptor ‘values’ within the theme ‘Company’) also illustrate that communicating daily and openly helps the family
management unit to share values, such as honesty across management and workers of the company so that ‘everyone understands what our company stands for, what values we uphold. This helps make sure that top family managers have a common understanding of our values and goals’ (Owner-Manager, Case LC, 2009, 20 August). Family business is therefore ‘more of a reflection of family values and how you use it to guide your business practices’ (Marketing and Administration Manager, Company QM, 2009, 25 August).

In other words, a shared vision ideally enables key family members to weave common interests into their business plans, and reflect goals they aim to achieve, including economic goals (e.g. profitability; achieving efficiency and providing a safe working environment for staff (Case LI)), and noneconomic goals (e.g. wealth building for the owning family; funding provided for education of children (Case AM)).

However, the interview transcripts associated with pathway 1 in Figure 13 (blue line that connects ‘Family’ and ‘Business’) also reaffirm results from phases 1 and 2 that creating a shared vision that serves both the family interest and business imperatives is a ‘real balancing act’: ‘There would have been times when we disagree on issues, I mean definitely, you try to find a resolution and it sometimes shows you where the border is, I mean, when we make decisions, should we use the family issue, or the financial issue, or both?’ (CEO, Company LI, 2009, 18 August). Some family firms suggest that ‘a family business must be a business owned and directed by the family. The management and governance should be largely influenced by family members’ (CEO, Company AP, 2009, 4 September), and:

‘It is a good idea for the business to be sustainable, and for the profitability reason. But as your family firm becomes more developed, you are a lot more sensitive to the business that affects the family directly because ‘business goes home’. By that I mean as the family is generally involved in the business, the discussion flows back into your household. The problems follow you to home: you talk about business and your talk about staff, and money and so forth at home’ (Managing Director, Company AM, 2009, 18 September).
Nonetheless, other interview transcripts illustrate that the *separation* between *business work* and *family life* appears to help address the dilemma: ‘I can’t think of one big challenge that’s been difficult for us…we all work together but none of us live together, so I think that helps to keep family matter away from business’ (Marketing and Administration Manager, Company QM, 2009, 25 August). Likewise, a similar example suggests that the family system does not necessarily conflict with the business system, or vice versa:

‘When it comes to business it should stay business-focused. That probably wasn’t the case when we were younger. Then my sister and I became the directors in 2001, since then it’s been a lot more together, as a unit, we don’t get our personal family lives into business as much as we probably used to. Now we share a view that what is good for the business is good for the family’ (Operations Director, Company HD, 2009, 10 September).
In conclusion, the phase 3 findings suggest that social interaction between family members helps create a shared vision, which becomes a cornerstone for shared cognition (Nahapiet & Ghoshal 1998), particularly about the business future. Family firms in phase 3 exemplify this scenario, as closeness of family members allows them to develop their collective vision about ‘what’ the business aims to achieve and ‘how’. During this ‘vision shaping’ process, some family firms demonstrate ‘particularism’, as members of the family management unit integrate their values with business practices and goals and ‘personalise’ their firms by using the ‘business’ as a tool to achieve economic and noneconomic goals. Ideally, such family commitment to business helps ensure a more sustainable future for family firms. However, failing to keep the family life aside from business operations creates a challenge to foster a shared vision among members of the family management unit, thus influencing their ability to achieve their intended economic and noneconomic goals. The next section further discusses this with findings that clarify proposition 4.

Proposition 4: Relational Governance and the Ability of Family Firms to Achieve their Economic and Noneconomic Goals
Consistent with findings in phases 1 and 2, the analysis further clarifies the findings (of phase 3) that have already been noted in the previous pages of this chapter: that is, family firms utilise a variety of informal (doorway meetings) and formal family institutions (formal business meetings) to foster a level of social interactions among members of small family management units to develop a shared vision about economic goals, such as ‘profitability, efficiency, to provide quality produce and service to customers and a safe and happy work environment for staff’ (Owner-Manager, Company LC, 2009, 20 August) and noneconomic goals such as good relationships and family harmony. Shaped by family values, the shared vision that was created through relational governance serves as the code of conduct and business principles at the business level:

‘One of the biggest differences between family and nonfamily business is our ability to focus on goals beyond profit. In other words, creating profit and wealth are just means and not the ends necessarily. The profits and wealth that is created through family business can be used to achieve the family goals, such as providing education for children. Family business
can be very personal too. We try our best to protect the business brand as much as your family reputation’ (Managing Director, Company AM, 2009, 18 September).

The findings elaborate that during the relational governance process, open communication is essential to the firm’s ability to achieve its goals: ‘Everyone in our company is always encouraged to voice out their views and opinions. Even though my husband and I have been in the business for 40 years, in some occasions our managers would know better than us. So we need to have open communication to keep the knowledge sharing going within the company because this will keep us to not only accumulate knowledge related to our business and industry, but more importantly develop people commitment to work cohesively and productively’ (Owner-Manager, Case LC, 2009, 20 August). In response to this, Company LC employed other non-family managers who are responsible for different areas of the family firm, including information and communication technology, sales and machinery maintenance. The departmentalisation enables the company as a whole to respond to stakeholders’ needs more efficiently and effectively.

In addition, family firms in phase 3 emphasise the importance of relationships in influencing the family firm’s ability to achieve their economic and noneconomic goals. The transcripts associated with pathway 2 (red line in Figure 13, connecting the theme ‘Family’ with ‘Relationships’ through ‘Firm’ and ‘Key’) reveal that most interviewees described close relationships between family members as positive and essential to the ability of family firms to achieve their intended goals: ‘(The relationships between family members are) very good and close as we work and speak to each other every day. The closeness of family relationships also extends to our managers. So if tomorrow three of us (family owners and managers) need to go for a holiday, I’m confident that the company will be alright as it is in good hands of my staff. So I would say good relationships contribute to our performance. The test is that if one of us (key family owners and managers) goes away tomorrow, will the company run as usual? Can you trust your managers would do a good job? I think to our company the answer is yes’ (Owner-Manager, Case LC, 2009, 20 August).
Another example from the interview texts relates to the family firm’s relationship with their customers and suppliers: ‘Last year we went through some tough times but our customers were very understanding and tolerant with what we went through. So in reciprocity, when our suppliers had financial problems we also showed our patience. To date, almost 90% of our key suppliers and customers are still with us’ (Owner-Manager, Case LC, 2009, 20 August). This further reveals how some family firms regard themselves as different from non-family firms as:

‘Non-family business will always focus on the economic side of a firm’s operation. Their focus is always on profits and result and that’s how they (non-family business) measure their performance. But I don’t think this is always the case of family business’ (Owner-Manager, Case LC, 2009, 20 August).

‘People may prefer to work with family business. They may not get big dollars here but they will have something that is not necessarily financial, like closer relationships and a friendly work environment’ (Marketing and Administration Manager, Company QM, 2009, 25 August).

Findings in phase 3 (i.e. also reaffirm concerns from some family firms participated in phase 1: that is, their capacity to perform through relational governance only: ‘formal procedures and plans specify responsibility of reporting. Such plans give managers a clear sense of how the business should be run. But in family business like ours, governance seems to be too informal and unorganised in a sense’ (Manager, Company WO, 2009, 14 September) and ‘to us, almost every day we come up with difficulties to balance family wants and business needs. As the industry requires companies to demonstrate a certain level of professionalism, the lack of any formality in terms of governance and decision making started to create problems for us, and these problems grew quicker than we imagined’ (Manager, Company WO, 2009, 14 September). At the time of the interview, formal management meetings were arranged in Company WO to address the governance problematic. Family members invited consultants to help formulate strategies aimed at ‘reviewing the previous target and evaluating where we are up to’ (Manager, Company WO, 2009, 14 September).
In summary, while the findings elaborate the conditions that encourage family businesses to move beyond an informal level of relational governance to more formal levels, at the same time they suggest that the influence of social embeddedness continues to swing family businesses towards retaining some level of relational governance when setting their economic and noneconomic goals for the business.

The next section presents data that extends the understanding of the relationship between embeddedness and governance in family SMEs. In particular, family business governance is influenced by the dynamics of mixed (social, economic, institutional) embeddedness, such as relationships with key stakeholders, market instability and strong competition, which subsequently challenges the efficacy of relational governance and the ability of a family SME to achieve their intended goals.

**Mixed Embeddedness, Family Business Governance and the Ability of Family Firms to Achieve their Economic and Noneconomic Goals**

The following sections present the phase 3 findings that explain the notion of social (structural and relational) embeddedness, and its relations with family business governance and the ability of family firms to achieve their economic and noneconomic goals (i.e. propositions 5 and 6).

**Proposition 5: Social Embeddedness and Relational Governance**

Proposition 5 suggests that in family firms, there is a relationship between social (structural and relational) embeddedness and relational governance. The conceptual maps (Figures 14, 15 and 16) generated by Leximancer help clarify this proposition. Figure 14 is based on analyses of the interview transcripts of all participated family firms in phase 3 on relational governance and social (both structural and relational) embeddedness. Figure 15 and Figure 16 respectively depict the analyses based on the transcripts that specifically inform structural and relational embeddedness of all family firms in phase 3.

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91 See discussion in Chapter 3, pp. 97–117.
92 See Chapter 3, pp. 106–110.
Social Embeddedness and Relational Governance – All Family Firms

In Figure 14, the themes at the top of the concept map reveal the key components of relational governance in family SMEs (as outlined by the blue dashed line). Figure 14 also provides a holistic view on the relationship between relational governance and social (both structural and relational) embeddedness of family SMEs participated in phase 3. The themes that represent social embeddedness (‘Social Ties’ and ‘Relational Trust’) are linked by pathway 1 (red line in Figure 14) to ‘Business’, which is also connected with themes associated with relational governance.

Figure 14 – Relational Governance and Structural (Social and Relational) Embeddedness: All Family Firms (Phase 3)

Note: paths colour coded – Path1 (red); Path 1A (red dashed line); path 2 (black); relational governance (blue dotted line); structural embeddedness (green dotted line); relational embeddedness (orange dotted line)
The interview transcripts associated with pathway 1 (red line in Figure 14) and the connected themes reveal the roles of relational trust (relational embeddedness) and social ties (structural embeddedness) in influencing a family SME’s operation. As family managers and/or owners used informal and formal family institutions frequently to discuss family and business matters, such frequent social interactions between managers help consequently develop relational trust: ‘Trust does not come naturally. You need to keep talking to each other (members of the family management unit) on the day to day basis, keep the communication going about different issues, for example, our future plan. And you have to trust people with their ability to achieve and information they have’ (Owner-Manager, Case LC, 2009, 20 August).

Other interview transcripts associated with pathway 1 (red line in Figure 14, connecting the descriptor ‘trust’ with ‘level’ and ‘personal’ within the theme ‘Social Ties’) further illustrate that relational trust is established and strengthened by strong social ties on the personal level. High level of trust is considered very or extremely important to family and business, otherwise ‘you will build animosity among family members and it will then negatively affect the business side of the family firm’ (Manager, Company WO, 2009, 14 September), and ‘without trust, our business can’t grow and we can’t get anywhere close to achieving our goals’ (Owner-Manager, Company FR, 2009, 12 September).

Structural Embeddedness at the Business Level

Figure 14 also shows the main components of structural embeddedness, which are represented by the theme ‘Social Ties’ that overlaps with ‘Relationships’ (the area outlined by the green dotted line). The interview transcripts associated with pathway 1A in Figure 14 (red dashed line which connects the descriptor ‘personal’ within the theme ‘Social Ties’ with ‘Suppliers’ through other descriptors ‘relationship’ and ‘clients’ within the theme ‘Relationship’) illustrate the business relationships between family SMEs and their key stakeholders including clients, suppliers and/or customers (depending on the industry/sector), and that these long-term relationships (ranging from ten to thirty years) are established at the personal level (which is illustrated by the proximity of the overlapping themes ‘Relationship’, ‘Suppliers’ and ‘Established’ and the transcripts associated with pathway 1A in Figure 14): ‘we (family owners and managers) have established
good relationships with our clients and suppliers and we personally know them and we have known them for more than 30 years.’ (Managing Director, Company LC, 2009, 24 August).

However, some family SMEs seem to establish long-term relationships with their suppliers only if both parties share the same values and views of business practices. This can be further explained by the proximity of the themes between ‘Values’, ‘Example’, ‘Suppliers’ and ‘Established’ and the related text from interviews:

‘60% of our suppliers are still with us 27 years later. I think it is because we tend to work with people with very similar values’ (Managing Director, Company AM, 2009, 18 September).

‘Sharing the same values and views with our suppliers and clients are important. We want to make sure that they also value quality of the product for customers’ (Marketing and Administration Manager, Company QM, 2009, 25 August).

Relational Embeddedness at the Business Level

In addition, Figure 14 illustrates the contexts of relational embeddedness at the business level, which is informed by the proximity of the themes ‘Business’, ‘Important’, ‘Relational Trust’ and ‘Based’ (the area outlined by the orange dotted line). The interview transcripts associated with pathway 1 (red line in Figure 14, connecting the theme ‘Business’ with ‘Relational Trust’) suggest that ‘relational trust is very important to the family and business because we have to see each other almost every day and work together every day. It is difficult to work with each other if there is no trust between us’ (Marketing and Administration Manager, Company QM, 2009, 25 August).

The interview transcripts associated with the pathway 2 (black line in Figure 14, connecting the descriptor ‘people’ with ‘trust’ and the theme ‘Based’) further illustrate what constitutes the base of relational trust between family firms and their key stakeholders at the business level: ‘(relational trust) is largely based on the people they know. Our suppliers need to know who we are but at the same time what they think we are able to do and deliver’ (Operations Director, Company HD,
2009, 4 September) and likewise, ‘Trust between family members is more on the personal level, whereas the trust between us and our key clients are more business oriented. Trust needs to be based on whether we both share the same views on doing business - we are very conscious of whom we work with’ (Managing Director, Company MC, 2009, 1 September).

**Structural Embeddedness – All Family Firms**

In order to further understand the characteristics of structural embeddedness in participated family firms, Figure 15 was created to provide a ‘micro’ view on this *structural* dimension of social embeddedness.

The transcripts associated with **pathway 1** (red line in Figure 15, connecting the descriptor ‘family’ with ‘relationships’ through ‘business’ and ‘personal’) suggest that most family members share strong relationships among themselves. As discussed previously in findings that inform proposition 2 (see pages 213-214), small family management units contribute to *closure* among some family individuals, as they are inherently bonded by family kinship, while maintaining positive work relationships. This work-based family network enables management of some family SMEs to ‘voice out’ their opinions freely in reporting and decision making based on analysis, rather than on mediocrity at the expense of favouritism.

![Figure 15 – Structural Embeddedness – All Family Firms (Phase 3)](image)

*Note: paths colour coded – path 1 (red)*
However, the text from an interview suggests that ‘Nothing is perfect. A close personal connection with good relationships does not necessarily make each other more responsible for their decisions. It is because whatever decisions that are made in our company, it ultimately stops at my husband.’ (Owner-Manager, Case LC, 2009, 20 August). This finding is consistent with other participants’ responses as presented in the previous section (see pages 214-217, proposition 3), whereby some family SMEs were entrenched in the process of striking a ‘perfect balance’ between ‘family’ and ‘business’. This is especially the case when the family firm has a owner and manager, who is also the founder of the firm and ‘always has the final say in every decision that we (the interviewees, the children of the firm’s founder) make’ (Manager, Company WO, 2009, 14 September).

**Relational Embeddedness – All Family Firms**

The phase 3 finding informs the nature of relational embeddedness in family business governance, highlighting the role of ‘time’ in strengthening relational trust between family members. The texts from interviews associated with pathway 1 (blue line in Figure 16, connecting the theme ‘Relational Trust’ with ‘Family’ through the descriptors ‘level’ and ‘important’) indicate that the majority of family SME participants have worked together in their firms for more than fifteen years and suggest that these long-term relationships have enhanced their relational trust, which is grounded in repeated interactions over time between individuals. As some family members work closely with one another as small family management units almost on a daily basis (see findings that inform propositions 1, 2 and 3), it is not surprising that family members share strong level of relational trust, which is considered as ‘absolutely paramount’ (Case LI) at the family level, or even ‘the most important thing’ to some family firms: ‘Our whole relationship is based on trust. I think it’s hard to work with your family or do business with somebody you don’t trust’ (CEO, Company AP, 2009, 4 September).

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93 As discussed in Chapter 3 (pp. 98–105), relational trust and norms of reciprocity are two main elements to illustrate the ‘quality’ of relationships. For instance, the development of relational trust indicates ‘value’, which is based on the repeated interactions over time between people (Nooteboom 2002). Similarly, norms of reciprocity can only be developed over time on the basis of trusting relationships (Lewis & Chamlee-Wright 2008).

94 See Chapter 4, Table 8, pp. 157-158.
This result supports the analysis that the development of relational social capital, such as relational trust, constitutes a form of accumulated history (Nahapiet & Ghoshal 1998). Specifically, repeated exchange and successful fulfilment of expectations strengthen the willingness of trusting parties to rely upon each other (Rousseau et al. 1998). As a result, this can be viewed as a ‘long-term investment’, which values are reflected in the quality of the relationships (Bourdieu 1986; Granovetter 1992).

To summarise, the text from interviews illustrate that relational governance appears to be interlocked with elements of social embeddedness, notably the structural and relational dimensions at the family level. High frequency of meetings (e.g. daily) enhances social interaction and closeness of social ties and relational trust between family members. This supports the argument of Uzzi (1997) that the actions of people are conditioned by their social ties or networks based on concrete and ongoing personal relations. As time passes, the relationship-building process

Figure 16 – Relational Embeddedness – All Family Firms (Phase 3)
Note: paths colour coded – path 1 (blue)
develops family members’ collective reflections about business ethics and future directions.

Hence, *family social capital* (‘FSC’), such as family relationships based on relational trust, is critical to the functioning of a family firm. This subsequently fosters the *organisational social capital* (‘OSC’), which is accumulated from family firms’ interactions, communications and relationships with external stakeholders at the business level. For example, when family firms share the same values with their key stakeholders, the transactions tend to be based on trustworthiness and norms of reciprocity, rather than formal written contracts. The shared values can therefore become the firm’s prescriptive norms, which align the goals of family and business. The next section presents the interview texts in support of this.

**Proposition 6: Social Embeddedness of Business Relationships, Family Business Governance and the Ability of Family Firms to Achieve their Intended Goals**

Proposition 6 suggests that in family firms, social (structural and relational) embeddedness influences the business-to-business relationship, which in turn influences family business governance and the ability of family firms to achieve their economic and noneconomic goals. The next section presents the phase 3 finding that informs this proposition.

**Structural Embeddedness, Family Business Governance, the Ability of Family Firms to Achieve Their Intended Goals**

While recognising the importance of establishing long-term business relationships with key stakeholders, the phase 3 findings also suggest that there can be nuances with structural embeddedness of family firms that have different governance practices, which in turn may influence the ability of family firms to achieve their economic and noneconomic goals. As such, two conceptual maps, Figure 17 and Figure 18, have been created based on two sets of data: family firms that have a board and family firms that do not have a board. These maps help respectively illustrate the context(s) of structural embeddedness in family SMEs as per board existence. The next section reports findings that explain the similarities and

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95 See Chapter 2 (pp. 65-70) and Chapter 3 (p. 113) for the discussion of family social capital (FSC) and organizational social capital (OSC).
differences of the configuration and operation of social ties that exist in these family firms.

The Role of Formal Contract

One of the similarities between family firms (regardless of their governance structure) is the role of ‘formality’ in shaping business relationships. As both Figures 17 and 18 show, the theme ‘Formal’ is relatively distant from ‘Business’ and other themes associated with the family firm’s key stakeholders (i.e. suppliers; clients). The text from interviews of the ‘no board’ group suggests that there is no formal contract between family firms and their clients or other stakeholders.

Figure 17 – Structural Embeddedness – Family Firms That Have No Board (Phase 3)
Note: paths colour coded – path 1 (red); path 1A (red dashed line)
The interview transcripts associated with pathway 1 (red line in Figure 17, connecting the theme ‘Business’ with ‘Formal’ through ‘Personal’ and ‘Clients’) help explain why formal contracts are relatively not important to some family firms:

‘In our industry, most of the jobs are one-off. Even with the longer term clients, the jobs that we do are project by project, so we don’t need a formal contract. But if we get a tender or a government job then we will need to prepare a contract’ (Marketing and Administration Manager, Company QM, 2009, 25 August).

‘Good relationships that have been developed over the years are more important and therefore we don’t have any formal contract with suppliers’ (Owner-Manager, Company AT, 2009, 23 August).

The only exception from this group (family firms that do not have a board) is Company AP: the owner of this family firm stated that formal contracts with clients and suppliers was considered the standard practice to prepare contracts in the construction industry: ‘The industry we are in is a multi-million industry, and some big projects value up to $400 million AUD. In most cases we have standard practices and we will customise the contracts as per the key client’s needs and project size’ (CEO, Company AP, 2009, 4 September).

Likewise, the majority of family firms that have a board do not have formal contracts with their key stakeholders. This is informed by the interview transcripts associated with pathway 1 (red line in Figure 18) that connects the theme ‘Formal’ with ‘Maintain’ through ‘Business’ and ‘Level’: ‘we have maintained strong business relationships with our clients over the years so we don’t have formal contracts with them. It is loyalty we follow. It is like social glue’ (Managing Director, Company AM, 2009, 18 September). In brief, it appears that the existence or absence of formal contract relates to the industry sector of family firms, rather than differences in family business governance.
The ‘Personal’ Factor

When comparing Figure 17 and Figure 18, one of the nuances seems to be the role of relationships in family firms with different governance practices. As Figure 17 shows, the theme ‘Business’ is close to ‘Personal’, which is also overlapped with other themes such as ‘Competitors’, ‘Clients’ and ‘Role’. The interview transcripts associated with pathway 1 (red line in Figure 17, connecting the theme ‘Clients’ with ‘Business’ through ‘Personal’) highlight the importance of relationships in shaping the ability of some family firms (with no board) to be able to achieve their intended goals: ‘a good relationship with clients on the personal level helps the company. It would make a difference in terms of outperforming competitors’ (Marketing and Administration Manager, Company QM, 2009, 25 August) and
‘I think once the relationship (with clients) is well established, people simply don’t want to source for alternatives’ (CEO, Company AP, 2009, 4 September).

However, some transcripts associated with pathway 1A (red dashed line in Figure 17 that connects the descriptor ‘relationships’ with the theme ‘Products’ through ‘Maintain’) also suggest that family owners and managers do not think good relationships come unconditionally: clients and suppliers maintain long-term business relationships given that family firms can deliver their outcomes (e.g. quality of service and/or products). This has become a shared view among some key family owners and/or managers as cooperation is based on whether clients are ‘satisfied with the quality of our service’ (Case AP) or simply, whether clients ‘like our products’ (Case QM):

‘We need to maintain good relationships with our clients on the personal level. Most of our clients are not family business so ownership and management keep changing. Therefore we sort of have to ensure that our product is of good quality and we also need to re-establish relationships with our contacts and maintain good relationships with them. If they like our products they will choose to maintain good relationships with us. In this case even though management of our clients has changed, we still manage to keep them to stay with us’ (Marketing and Administration Manager, Company QM, 2009, 25 August).

In this regard, through relational governance, some family firms have come up with a shared vision of allocating more time and resource aimed at maintaining their strong relationships with key long-term clients and/or suppliers. As the text from interviews illustrates, being able to maintain long-term relationships with stakeholders is considered one of the strengths of family SMEs: ‘I think family business is more aware of people needs and always tries to make sure that their customers are happy’ (Owner-Manager, Company FR, 2009, 28 August).

For family firms that have a board, relationships appear to be more critical to them when facing challenges. This is further informed by the transcripts associated with pathway 2 (blue line in Figure 18, connecting ‘Business’ with ‘Networks’ through ‘Challenges’ and ‘Relationships’): ‘When facing business challenges, our personal
relationship with key clients and customers would absolutely play an important role. The networks we have developed with our key stakeholders over the years does help us to get through the economy down period. To a very large degree, the positive relationships with our clients and customers help our company to survive and grow’ (Managing Director, Company MC, 2009, 1 September). As family owners and managers value long-term relationships with key clients, management of Company MC have therefore spent ‘a fair amount of time on our clients in order to better understand what they need. For example, we sent out surveys to clients trying to get some feedback from them and figure out why some clients stay and why some of them didn’t come back’ (Managing Director, Company MC, 2009, 1 September). Likewise, other transcripts reaffirm this view: ‘We have to understand what customers or suppliers want in order to keep them with us, and come back to buy our products’ (Manager, Company WO, 2009, 14 September) and ‘(the firm’s strategies to maintain relationships or increase customer satisfaction) is to constantly collect feedback through our customer relationship representative. We particularly ask whether our service has fulfilled their expectations on us’ (CEO, Company LI, 2009, 21 August).

The interview transcripts associated with pathway 2 (blue line in Figure 18) also illustrate that when problems emerge, family owners and/or managers often use the ‘one-to-one’ approach to resolve business matters by organising face-to-face meetings with key clients and suppliers. Such network configurations set the boundary of a comfort zone for both parties to negotiate when facing disputes. On the other hand, strong networks encourage subsequent business cooperation:

‘At the end of the day it’s not what you know, but who you know, it’s about contacts and how to relate to your customers personally’ (Operations Director, Company HD, 2009, 14 September).

The text from interviews further indicates that the strong relationships in turn create the competitive edge of family SMEs, particularly those emphasising customer services. Family firms ‘earn’ the strong customer loyalty from their long-term networks and/or relationships with clients. Such intangible assets are important in ‘rescuing’ family firms when facing economic adversities: ‘we had some financial tough times a couple of years ago but our customers and suppliers were very
tolerant with what we went through’ (Managing Director, Company LC, 2009, 24 August). This finding concurs with Uzzi (1997), who suggests that the presence of network ties and closure characterises long-term personal relationships with significance to a firm’s success. In the family firm’s context, closure of network ties enable family firms and their business stakeholders to create and reproduce economic opportunities. Family owner-managers sharing strong relationships with their clients/suppliers treasure long-term cooperative ties, more than immediate economic gain.

Until now, the findings in phase 3 help illustrate the context of structural embeddedness of family firms. However, the role of relational embeddedness is also critical to family business, particularly in strengthening network ties and network closure, and in unravelling the various aspects of long-term relationships (Granovetter 1992). The next section presents the research findings that further informs this problematic.

Relational Embeddedness, Family Business Governance, the Ability of Family Firms to Achieve Their Intended Goals

Similar to the comparative analysis of structural embeddedness, two conceptual maps regarding relational embeddedness of family firms have been created based on board existence. Figure 19 and Figure 20 respectively illustrate the context(s) of relational embeddedness in family SMEs that have no board and those family firms that have a board. The next section reports evidence that informs the nuances of relational embeddedness that exist in these family firms.
To family firms participated in phase 3 (regardless of board existence), relational trust is a trait embedded in the long-term business relationships. In reference to the ‘effect’ of trusting relationships, the interview transcripts from both groups of family firms suggest that trustworthiness is conditioned by time. Similar to relational trust at the family level, such historical trustworthiness at the business level is also grounded in previous repeated interactions. Consequently, relational trust shapes mutual expectations, which in turn determine cooperation between the family firm and its key stakeholders in the future. This is further informed by the transcripts associated with pathway 1 (blue line in Figure 19, connecting the theme ‘Relational Trust’ with ‘Contexts’): ‘If you build a good relationship with a person (key clients and suppliers) for a long time (over 25 years) then it seems the job will
go on a lot smoother. To me, time does matter when it comes to trust.’ (CEO, Company AP, 2009, 4 September). Similarly, the interview transcripts associated with pathway 1 (red line in Figure 20, connecting the theme ‘Relational Trust’ with ‘Relationships’) also indicate that: ‘Trust does take time to develop and mutual trust will be stronger over a long period of time, given that people haven’t breached the trust relationships’ (Managing Director, Company MC, 2009, 1 September).

**Word of Mouth**

The interview texts from family firms (regardless of board existence) also indicate the ‘word of mouth’ as a factor that contributes to the durability of relational trust, which seems to relate to the ability of family firms to be able to achieve their intended goals. The interview transcripts associated with pathway 2 (green line in Figure 20, connecting the theme ‘Relational Trust’ with ‘Business’ through the descriptors ‘commitment’ and ‘level’) illustrate that word of mouth ‘grows itself; it also helps to build up the level of mutual trust we have developed in the industry over the years. We did not do much advertisement so the first thing is that our commitment to good quality service must be there’ (Operations Director, Company HD, 2009, 4 September).

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**Figure 20 – Relational Embeddedness - Family Firms That Have a Board (Phase 3)**

Note: paths colour coded – path 1 (red); path 2 (green); path 3 (yellow)
In Case HD, through frequent social interactions via daily informal meetings, members of the family management unit created a shared vision that trust ‘positively affects long term business strategies, so we have to make sure that we treat our clients and business partners with honesty and integrity. On top of that, we have to make sure that we can win our clients’ trust through the quality of our service. Trust is definitely something that needs to be earned and we need to work hard to achieve it’ (Operations Director, Company HD, 2009, 4 September).

Likewise, other transcripts also suggest that: ‘A lot of our business comes from the word of mouth, so because of that, they trust the person who told them. In fact the trust might not actually be with us, but with friends or their colleagues. Then the more they use our service, the more they realise that they can trust us even more, because we can deliver what they are after’ (Marketing and Administration Manager, Company QM, 2009, 25 August). The shared view of Company QM is that ‘trust is about reliability and trustworthiness, so what we can do is to make sure that our price is competitive and the quality of our product is up to the standard, and our company and staff will always treat our clients with honesty’ (Marketing and Administration Manager, Company QM, 2009, 25 August).

Trust as a Source of Competitive Advantage

The interview texts associated with pathway 1 (blue line in Figure 19) also suggest that relational trust can be a source of competitive advantage for some family firms (that do not have a board) against their rivalries. While referring to relational trust as the ‘family business’s edge’, some interviewees strongly believe that in a competitive labour market, family firms prevail by maintaining trusting relationships with their employees and that consequently can influence the ability of a family firm to be able to achieve their intended goals: ‘It is like a team of people who trust each other. This is always going to work a lot better than a team that has low level of trust between their managers and workers and suppliers’ (CEO, Company LI, 2009, 21 August), and ‘If you don’t trust the person who can do a good job then it would impact on how well and how quickly the service delivery is’ (Marketing and Administration Manager, Company QM, 2009, 25 August).
Other interview transcripts (associated with pathway 1 in Figure 19) further illustrate that relational trust is critical to the family firm’s survival, especially when family firms faced unexpected situations: ‘As a software company, the problem of ‘bugs’ released on the World Wide Web constantly posed a challenge to us (Company AM). Computer viruses could ‘dysfunction’ the software that clients purchased from us.’ (Managing Director, Company AM, 2009, 18 September). Problematic software in turn affected the daily business operation of the clients’ companies. Despite this, the long-term relationship based on relational trust and the family’s reputation helped minimise the negative impact on the family SME when problems emerged. Trusting relationships encouraged open communication between the owning family and their clients, thus helping to minimise the ‘fallout’ caused by product failure:

‘If a client comes to my doorstep and complains about our product, we will deal with the problems straight away. Otherwise you will lose trust very quickly’ (Managing Director, Company AM, 2009, 18 September).

Similarly in Company HD (that has a board), regular contacts and communication with clients are considered essential to the ability of the family SME to be able to achieve its intended goals. The interview transcripts associated with pathway 2 (green line in Figure 20) help inform this. For example, most of Company HD’s clientele are long-term clients sharing more than five years of a business relationship with the owning family. Over the years they had contributed approximately 80 per cent to the family SME’s total income. As the interview texts reveal, such remarkable results are the ‘end products’ of regular communication and their commitment to act upon the demands of their long-term clients (e.g. timely delivery of service). As a result, the commitment to open communication enables both sides of the business to ‘speak on a comfortable level and strengthen the trust between us’ (Operations Director, Company HD, 2009, 14 September).

In addition to relational trust, the phase 3 findings suggest that sharing the same values becomes norms of reciprocity to sustain long-term business transactions of family SMEs and in turn their ability to be able to achieve the intended economic and noneconomic goals.
**Norms of Reciprocity**

The interview transcripts associated with **pathway 3** (yellow line in Figure 20, connecting ‘Relational Trust’ with ‘Decision’ through ‘Key’ and ‘Develop’) illustrate that some family firms prioritise decisions that ‘not only help the business to develop and grow, but also need to be consistent with our (the family’s) values. We are only dealing with businesses whose values are aligned with ours. Otherwise we will walk away (from the opportunities of business cooperation’) (Managing Director, CEO, Company MC, 2009, 1 September). In other words, by aligning family values and business practices, family firms, regardless of board existence, use shared values as norms of reciprocity, such as loyalty and honesty, as benchmarks to justify the trustworthiness of their business stakeholders and influence the ability of family firms to be able to achieve their economic and noneconomic goals, including the consideration of ‘what makes a good business decision’. Other transcripts (associated with **pathway 2** (red line connecting the theme ‘Family’ with ‘Stakeholders’ through ‘Relational Trust’ and ‘Contexts’) also reveal shared values as norms of reciprocity can strengthen the foundation of determining if a relationship will be maintained and whether business cooperation will continue:

‘We treat our clients the way they want to be treated. Maintaining good relationships and trust with customers and stakeholders and obviously trying to ensure that they share the same values, these are all important and contribute to relationships and trust that we’ve developed for years. We also need to make sure that our staff share our family values like honesty and integrity, because they are the ones who go out there and meet our clients every day, so what they do is going to decide whether we get the next job’ (CEO, Company AP, 2009, 4 September).

In summary, the research findings clarify support proposition 6, suggesting that most family firms have developed network ties (structural embeddedness) with their long-term business stakeholders. This in turn facilitates closeness of their social connections. In the long run, relational trust and norms of reciprocity not only

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6 In family firms, social (structural and relational) embeddedness influences the business-to-business relationship, which in turn influences family firm governance and the ability of family firms to achieve their economic and noneconomic goals.
strengthen relationships between both buyers and sellers, but also tend to substitute formal contracts in some family firms. Hence, when family SMEs share strong norms of reciprocity with their key stakeholders (clients, suppliers etc.), these norms (e.g. providing products/services with honesty) shape mutual behaviours of both parties involved in trust relationships based on trustworthiness, without the need for cumbersome legal contracts (Coleman 1988).

The phase 3 case material also illustrates that at the business level, a trusting relationship enables both parties to achieve efficiency and reciprocity. Granovetter (1992) refers to this as the standards of behaviours that govern actors’ actions. It is argued here that it is the presence of strong network ties and shared norms about business ethics that shape a trusting relationship. This subsequently influences family business governance practices (for example, in some cases, relational trust replacing written formal contracts) and the ability of family firms to achieve their economic and noneconomic goals (for example, sustaining business growth from key clients by allocating time and resources to maintain long-term business relationships).

After presenting the findings about family SMEs’ operations embedded in social (structural and relational) contexts, the next section discusses the economic and institutional dimensions that influence family business governance and the ability of family firms to achieve their economic and noneconomic goals.

**Proposition 7: Economic and Institutional (Mixed) Embeddedness of Family Business Governance and the Ability of Family Firms to Achieve their Intended Goals**

Proposition 7 suggests that economic and institutional (mixed) embeddedness influence family business governance and the ability of family firms to achieve their economic and noneconomic goals. The next section presents the phase 3 finding that informs this proposition.

**Economic and Institutional Embeddedness**

Consistent with findings in phases 1 and 2, the phase 3 finding reaffirms the relationship between family business governance and economic and institutional embeddedness of all family SMEs participated in the final phase of this study.
Figure 21 illustrates the context of economic embeddedness (the area outlined by the orange dotted line). The interview transcripts associated with pathway 1 (red line in Figure 21, connecting the theme ‘Market’ with ‘Business’ through ‘Company’ and ‘Products’) suggest that the company’s survival seems to relate to the competitiveness of the family firm in its related industry: ‘It is quite difficult for us to recruit and retain staff because of the competitive market we are currently in’ (Owner-Manager, Company AT, 2009, 23 August) and ‘Our market position is quite stable because of our competitive pricing. The barriers to enter our industry are generally quite high, as it requires quite substantial investment in large machinery’ (Marketing and Administration Manager, Company QM, 2009, 25 August).

Figure 21 – Economic Embeddedness – All Family Firms (Phase 3)
Note: paths colour coded – path 1 (red); path 1A (red dotted line); economic embeddedness (orange dotted line)
Consequently, market stability of the industry influences the ability of some members of the family management unit to predict the market trend and act accordingly, mainly because:

‘our industry (construction) is approximately six months behind our customers so we almost seem to have the six-month advantage over other businesses, because if a builder is not selling a house, then we know what’s going to happen to us, but when the construction in the housing industry grows our business is going to be up, so being able to predict further in the future, we do monitor what happens economically, to be able to estimate where our business is going, and try to plan for that accordingly’

(Operations Director, Company HD, 2009, 14 September).

The case material illustrates that in the aftermath of the global financial crisis (‘GFC’), the gloomy economic climate strained Company HD’s relationships with suppliers who encountered financial difficulties in cash flow. Suppliers affected by the GFC at the time struggled to finance their business operations, which in turn failed them to fulfil their financial responsibility timely (i.e. suppliers did not manage to pay for family firms’ products and services on time). This subsequently influenced the financial position of Company HD, and eventually postponed the completion of the family firm’s business plan within a scheduled timeframe. Notwithstanding all these, during the financial hardship, relational trust is central to maintaining the business relationship at the personal level, as ‘we all tried to be gentlemen and talked about it’ (Operations Director, Company HD, 2009, 14 September).

**Relational Governance and Economic Embeddedness**

Given the relative market stability and strong long-term business relationships, the interview transcripts associated with **pathway 1A** (red dotted line in Figure 21, an extended path of pathway 1 and connects the theme ‘Business’ with ‘Decisions’) illustrate that some family SMEs appear to be ‘comfortable' with their existing governance approach, especially when management values the **flexibility** and **informality** of relational governance to trigger timely and effective responses to
changes in the marketplace.\textsuperscript{97} Paradoxically this shapes the resilient nature of family SMEs towards adverse conditions: ‘If something needs to be changed, without having to go through the layers of decision making, our team can just get together and things can be discussed and solved pretty quickly’ (Operations Director, Company HD, 2009, 14 September).

The ‘push’ of maintaining relational governance in family firms also seems to discourage family members from introducing steps to formalise their governance practices. This is mainly because the informality facilitated by relational governance allows the family management unit to make timely changes in decision making. For those family firms that survived the GFC, the text from interviews suggests that the resilience of family SMEs stems from their greater flexibility in governance (compared to board monitoring), as well as the emphasis on long-term success:

‘We constantly monitor business cost so we know where changes need to be made and rectify problems, being able to work as a team, make decisions quickly and sort the problems effectively are important to our business’ (Managing Director, Company LC, 2009, 24 August).

Given the ‘advantages’ of adopting relational governance as an informal level of social control in family SMEs, managers of these family firms therefore perceived no imminent need to formalise governance practices. It is because relational governance was considered sufficient to manage some family firms’ operations as it helps contribute positively to their ability to be able to achieve their goals, such as making timely and flexible decisions as a response to market changes.

Nonetheless, the interview transcripts associated with pathway 1 (red line in Figure 21) provide some noteworthy results: ‘given the market expansion we have spent more time on improving professionalism of the business and build up a better business planning system. When I talk about professionalism, it’s mainly about improving governance and the overall system of our business. It can be as simple as keeping minutes in a meeting and inviting accountants in our formal meetings. By doing these we can find a way to document our decisions, seek advice from non-family directors in decision making.'

\textsuperscript{97} Whereas formal governance (e.g. board monitoring) requires management of accountability from non-family directors in decision making.
professionals and hold each other accountable for those decisions’ (Owner-Manager, Company AT, 2009, 23 August). Likewise, ‘In response to market changes we have been working hard to re-brand our company for survival in the industry. The key issue during this branding process is to adopt and build up professionalism, to show our clients and suppliers that we have made a step forward decision in improving our governance, such as formalising our business plans. I think this re-branding effort seems to be translated quite well to our clients and suppliers’ (Marketing and Administration Manager, Company QM, 2009, 25 August).

In summary, the phase 3 findings reaffirm the findings of phases 1 and 2 that family business governance appears to be contingent upon economic embeddedness, especially market stability. For example, some family SMEs operating in stable markets tend to maintain ‘the status quo’ in governance practices, notably relational governance (the area outlined by the blue dotted line in Figure 22), whereas others that were confronted with market instability and strong competition tend to formalise their governance practices. This is further discussed in the next section.

**The Effect of Mixed Embeddedness on Formalising Family Business Governance**

As the phase 3 finding further reveals, some family SMEs such as Company AP and Company QM faced relatively unpredictable markets, which in turn forced them to formalise their governance practices. This was further informed by the interview transcripts associated with **pathway 1** (yellow line in Figure 22, connecting the themes ‘Growth’ with ‘Family Institutions’ through the descriptors ‘business’, ‘formal’, ‘meeting’ and ‘board’).
For instance, management of Company AP described the family firm’s operating environment as ‘quite competitive, with lots of ups and downs in relation to economic conditions’ (CEO, Company AP, 2009, 4 September). Having recorded a rapid business growth of more than 75 per cent for the three years from 2006 to 2008, the CEO described the firm’s industry as ‘…rapidly accelerating…the growth we experienced in the oil and gas industry is purely driven by need especially from the Asia-Pacific region’ (CEO, Company AP, 2009, 4 September).

The motivation to formalise governance is also triggered by the stereotypical view about family business, which is often portrayed as the local corner store, the newsagent or the neighbourhood mechanic (Authority of the Senate 2009). As the case material of phase 3 reveals, the unfounded stereotype subsequently challenges the public perception about the ability of family firms to be able to achieve their goals in the sector compared to other competitors. Thus, at the time of
the interview, some family SMEs such as Company QM had a shared vision of formalising business practices, including the establishment of a formal charter to address issues such as employment, employee behaviour and exit policies for family members. Company QM also involved non-family managers in decision making to increase accountability of management (from a long-term perspective, to assist family firms in further separating family from business): ‘…(in our family firm) emotions always kick in; nothing is going to change. It takes time for my father (the founder and owner-manager) to retire or change his position and the family way of getting things done’ (Manager, Company WO, 2009, 14 September).

Given the limitation of relational governance, interviewees from Company WO highlighted the importance of formalising their family firm’s governance. They valued the ‘formality’ of non-family firms, in which clear business procedures were established and implemented to resolve problems as:

‘…they (nonfamily firms) establish the reporting structure to clarify how the business should be operated and regulated. However, in family business, the reporting structure is relatively unorganised and less formal, specifically in budgeting and strategic planning’ (Manager, Company WO, 2009, 14 September).

Other interview transcripts associated with pathway 1 (yellow line in Figure 22) also reveal some interesting results. For example, the descriptor ‘board’ is located at the theme ‘Family Institution’. As per the interview texts, four family SMEs have boards aimed at professionalising governance. Among these family firms, three of them (Company LI, Company WO, Company HD) in fact have established their informal ‘boards’ that constitute only family managers. This finding is similar to Company E in phase 1, as the family SME appeared to interpret the role of board monitoring differently from the agency theory perspective (i.e. the separation of ownership and control), which indicates that ideally, nonfamily managers should participate directly in decision making and monitoring of performance. As a self-defined ‘formal’ governance mechanism, the ‘board’ adopted by these family firms in fact resembles a formal business meeting or even a type of formal family institution, where only family stakeholders are allowed to be involved in strategic

98 See Chapter 4, Table 8, p.158.
planning: ‘we have a board meeting once a fortnight and it focuses on business matters. Board meetings to our company are used more as a platform for family members to exchange business ideas and opinions. And there are no non-family managers involved in these board meetings’ (CEO, Company LI, 2009, 21 August). Likewise, other transcripts also suggest that: ‘we have developed the new governance structure to address the market changes. We try to make our company stay competitive by improving ways of allocating our resources and designing our governance, so we could reduce our expense and increase productivity. Our ultimate goal is to find a niche market in the industry but so far there’s still a lot of work to do in order to achieve that’ (Manager, Company WO, 2009, 14 September).

Among all participating family firms, Company MC is the only family SME that has established an executive board (with non-family managers as decision makers) in relation to formalising family business governance. At the time of interview, governance of Company MC existed at two levels: at the formal level of an executive board sitting at the top of the company structure, and at an informal level of relational governance control by the family management unit.

The executive board comprised two external non-executive directors, and the managing director as the representative of the family management unit. According to the case material, it was the rapid market growth (of 24 per cent experienced for the three years from 2007 to 2009) that encouraged the company to formalise governance by establishing an executive board in 2009: ‘…[until then] the company was not sufficiently large to facilitate such formal business mechanisms [such as a board]’ (Managing Director, Company MC, 2009, 1 September) and coordinate the firm’s long-term strategic development: ‘My parents are not officially board members…we deliberately keep them away from the board. It’s about risk management so decisions can be made more formally’ (Managing Director, Company MC, 2009, 1 September).

This example further supports the view that economic embeddedness influences family business governance (i.e. the decision to formalise governance such as board establishment) and in turn the ability of family firms to be able to achieve their economic and noneconomic goals. As the case material reveals, when Company MC was first formed, the business activity was mainly in contracting service. The
acquisition of another company contributed to the diversification of business activities. This consequently stimulated business expansion in 2000. Since then, the family management unit had exploited the firm’s competitive advantage in the booming environmental construction industry, which in turn generated a growth rate of 24 per cent between 2005 and 2008 and changed the firm’s customer base (i.e. by shifting the focus from specific, individual and mainly SME-based clientele to larger corporate clients). These stakeholders aligned business excellence with formal governance, rather than the ‘informal’, ‘patriarchal’ and ‘nepotistic’ image often associated with family business (Carney 2005). In response to this, the owning family established a board, which not only matched the professional image, but also met the business stakeholders’ expectations about professionalism as:

‘...our clients are more from corporate people, other professionals and high-network individuals—so we need to present ourselves in a very reliable image’ (Managing Director, Company MC, 2009, 1 September).

According to the phase 3 findings, the institutional dimension of mixed embeddedness is insignificant in affecting family business governance and the ability of family firms to achieve their intended goals. Among the participating family SMEs, Case HD is the only example to help inform the role of institutional embeddedness in influencing a family firm’s operation. In the aftermath of the GFC, the family SME recorded an approximately 30 per cent decline on business growth. While struggling to recover, they particularly highlighted the positive effect of the Australian Government’s public policy entitled ‘Economic Stimulus Plan’ on firm performance:

‘The plan was a huge stimulus to our industry and also the building industry and the economy’ (Operations Director, Company HD, 2009, 14 September).

In summary, the phase 3 finding that explains proposition 7 suggests that, economic, and to a very limited extent institutional embeddedness (which only

99 After the GFC, the Australian Government launched the ‘Economic Stimulus Plan’ aimed at hampering economic downturn through a series of fiscal policies across the country. According to Commonwealth of Australia (2009), the Plan aims to boost local infrastructure and support jobs by funding projects across Australia.
impacted on Case HD), influences family business governance and the ability of family firms to achieve their economic and noneconomic goals. The text from interviews reveals that the family management unit’s decision to formalise governance is subject to the family SME’s economic embedded context. While acknowledging the ‘flexibility’ of relational governance in delivering solutions to family and business matters in a stable market, management of some family firms formalised governance against environmental turbulence (strong competition, unstable market etc.) by formalising their governance practices (for example, organise formal business meeting, establish a board facilitating non-family managers’ involvement in decision making). This helps enhance the ability of their firms to be able to achieve their intended goals, and in turn meet the stakeholders’ expectation in business professionalism. The next section further presents the findings that explain the relationship between formal and relational governance.

Proposition 8: the Relationship between Relational and Formal Governance in Family Firms

The case material of phase 3 and the interview transcripts associated with pathway 2 (black line in Figure 22, connecting ‘Relational Governance’ (the area outlined by the blue dotted line) with the theme ‘Performance’ through ‘Business’) illustrate the relationship between relational governance and formal governance. In Case AM, through relational governance, the family managers shared the same view on taking steps to formalise governance, but also maintained relational governance as an informal governance mechanism. The flexibility of relational governance facilitates daily conversations and social interaction among family members, which subsequently enables family members to ‘encourage a lot of ideas, which can ultimately influence the company performance and the family’s wealth and wellbeing’ (Managing Director, Company AM, 2009, 18 September).

As already discussed in findings that clarify proposition 7, the dynamics of economic embeddedness motivate some family SMEs to professionalise governance strategies. For instance, in Case LI, rapid business growth challenges the effectiveness of relational governance. Given the strong competition in the industry, the family management unit acknowledged the necessity to formalise the firm’s governance structure. This aimed to clarify the family’s roles, tasks and responsibility at the business level. Paradoxically, formal governance is in fact the
‘product’ of relational governance, which is created out of the family’s shared vision in facilitating the involvement of external advisers and consultants.

As the only family firm that implemented an executive board with nonfamily members’ involvement in key business decisions, Company MC nonetheless emphasises the importance of strengthening the relationships among themselves through relational governance. Thus, daily informal meetings remain essential to enhancing the level of social interaction among family members and key management staff. In other words, relational governance still creates a strong effect on aligning family welfare and business imperatives. This in turn provides a shared vision for the owning family about the future direction of the company:

‘We always have a chance to sit together and talk about the business issues. We want our clients to think that we are one of the best and professional construction companies in the industry’ (Managing Director, Company MC, 2009, 1 September).

In conclusion, findings in phase 3 clarify proposition 8 by suggesting that a relationship between relational and formal governance exists in a compatible and integrative manner in family firms. Given the firm’s external pressure (clients expectation, market competition etc.), some family members create a shared vision about formal governance in order to ensure their accountability and effectiveness of management. Consequently, formal governance contributes not only to the existing governance system, but also the ability of family firms to be able to achieve their economic and noneconomic goals. The next section presents the case results to further illustrate this in relation to proposition 9.

Proposition 9: The Effect of Formal Governance on the Ability of Family Firms to Achieve Their Intended Goals

The case findings help explain proposition 9 by suggesting that in some family firms, formal governance influences the ability of family firms to achieve their economic and noneconomic goals (see Chapter 3, page 117). An understanding of how these effects developed can be gained by the interview transcripts (associated with pathway 2 (black line in Figure 22)), which highlight that management of
Companies AM and AP incorporate formal governance into developing commitment to strategic decision:

‘When we discuss important strategies we identify when, where and how. Then we measure them every week with plan, do, check, act, meet. So essentially we make decisions based on a set agenda, the level of performance, client feedback etc. So any good ideas from the meetings are not just on the record. It must have their strategic parking areas, then it goes back to our “where when how” cycle’ (Managing Director, Company AM, 2009, 18 September 2009).

Through monthly executive meetings, both family and non-family members of Company AP were accountable for monitoring the implementation of policies on human resources and business development (e.g. accomplished various accreditations in areas of health and safety, environment and quality over the years). Formal governance specifically assisted the family management unit in:

‘…making the right decision by active listening to other managers and staff. This is really important because they are out there to do the jobs and can have an impact on our performance. For example, our business development manager is to make sure we got the right job, then the follow up, the feedback from clients, and he also liaised with me and all the other departments to make sure we got the resources for the things that we commit. So when we meet and listen to everyone, from the finance people and the accountants, we put the reporting functions in place so we will actually have good information to give to our advisers, who can then help to grow our business more’ (CEO, Company AP, 2009, 4 September).

At the time of the interview, Company AP was undertaking a transition period to systemise the reporting structure on the weekly and monthly basis. Prior to this, Company AP adopted an ad-hoc approach in gathering information from reports prepared by departmental managers. By formalising the reporting process, the family firm aimed to conduct all management meetings so that in the future:

‘We all get used to the formal reporting process, which is easier to get the
information we need for the day to day running as well’ (CEO, Company AP, 2009, 4 September).

As already mentioned, Company MC formalised governance by establishing an executive board. Two non-family directors were selected based on their expertise and skills, and more importantly their trustworthiness. Prior to board establishment, they had already been appointed as the external legal and financial advisors, who had shared strong levels of relational trust with the owning family for years. The managing director appointed independent professionals to chair the board, which subsequently improved firm performance as:

‘they (independent professionals) bring skills and accountability to the company…to counteract the downside of the family business as what is good for the family may not necessarily be good for the business’ (Managing Director, Company MC, 2009, 1 September).

Board monitoring therefore helped direct the family management unit’s focus on business-oriented matters, such as taking the responsibility in aspects of financial oversight, strategy formulation, monitoring performance, ensuring policy compliance, undertaking risk analysis, and more importantly, recruiting and monitoring the performance of the managing director.

In conclusion, the phase 3 findings clarify propositions 8 and 9 by suggesting that family business governance interweaves relational and formal governance. Family SMEs use relational governance as an informal level of social control to enhance the level of social interaction among family members. This helps create a shared vision of professionalising governance practices, for example, the establishment of an executive board with the participation of non-family directors. In other words, relational governance encapsulates the family’s shared vision about the ‘need’ to professionalise governance, which is materialised in various forms, such as facilitating the contribution of external advisers and consultants in formal governance. This in turn explains that in some family SMEs, there is a relationship between relational and formal governance (proposition 8). In relation to proposition 9, the research finding also indicates that in some family firms, formal governance influences the ability of family firms to achieve their economic and noneconomic
goals. Formal governance, such as an executive board, helps improve the delegation process, which in turn influences the ability of family firms to achieve their intended goals, particularly in aspect of developing commitment to strategic decisions.

**Conclusion**

The chapter concludes that findings in phase 3 generally support the relational governance model, which illustrates the informal level of social control in family SMEs and how relational governance influences their ability to be able to achieve economic and noneconomic goals within the firms’ embedded contexts.

The research finding overall supports Coleman’s (1988, 1990) argument about the power of social capital, which comes through closed personal relations that engender robust individual and collective action. As one’s contacts in close social ties know and interact with each other, these actors are more likely to convey and reinforce norms of reciprocity and more easily able to monitor their observance and act accordingly. Relational trust helps reinforce the functioning of relational governance based on close familial relationships at the family level, and at the business level, enables a family SME and its long-term business stakeholders to share the same values on business practices and uphold norms of reciprocity that may replace formal contracts (Granovetter 1985; Poppo & Zenger 2002; Uzzi 1997).

On the other hand, economic embeddedness poses a challenge to the limitation of relational governance by creating a ‘push’ effect on either maintaining the ‘status quo’ of applying relational governance to a firm’s operation, or a ‘pull’ effect on coercing the owning family to formalise governance practices (Case AP and MC), such as establishing an executive board (Case MC) to incorporate independent participation of non-family professionals into strategic decision making. Overall, this case material echoes Lane et al. (2006)’s suggestions that family business governance should not be treated as ‘one size fits all’. Briefly, the research finding illustrates that in the event of competition and market growth, family firms need to demonstrate their ability to adopt an integrative approach of formal and informal governance. The next chapter discusses the research findings further.
PART C

DISCUSSION AND CONCLUSION OF THE RESEARCH FINDINGS
CHAPTER 8

The Uniqueness of Family Business Governance

Research on embeddedness is an exciting area...because it advances our understanding of how social structure affects economic life.

Uzzi (1997)

Social interactions among family members, and between the family and nonfamily agents, are central in shaping family business strategies over time.

Salvato & Melin (2008)

Introduction

The major finding of the present study has been to show that in family firms, there is a relationship between social (structural and relational) embeddedness, relational governance and the ability of family firms to be able to achieve their economic and noneconomic goals. In presenting this discussion, the study highlights the significance of social embeddedness in influencing the firm’s operation. The research finding suggests that while relational governance exerts what is described as a strong influence in the governance of firms, at the same time influences associated with the embeddedness of the firm (both social and economic, and to a lesser extent, institutional) challenges the degree that relational governance can exert in guiding family firms in achieving their economic and noneconomic goals. In other words, embeddedness acts to moderate the influence of relational governance in guiding the ability of family firms to achieve their intended goals.

Economic embeddedness can ‘push’ family members towards institutionalising governance by adopting formal governance measures such as boards. However, social embeddedness fosters relational trust, which is defined as trust based on the repeated interactions over time between a trustor and a trustee (Nooteboom 2002). Trustees are external stakeholders such as banks, customers and suppliers. Relational trust influences relational governance in relation to both the degree and quality of interaction between family members and these external stakeholders. The influence of social embeddedness on relational governance can, in turn, encourage
family SMEs to develop formal governance strategies. However, as the findings in Chapter 7 suggest, these too are often tinged by ‘relations’, such as where the family management unit decides to formalise meetings of family institutions to discuss business matters, rather than establish a separate mechanism to have these discussions or include non-family members in these discussions. As a result of this mixed approach to governance, this thesis suggests that for family firms, an integrative approach to governance that melds both relational and formal governance is best suited in guiding them to achieve both economic and noneconomic goals. This combined approach responds to the distinctive nature of family business whereby while operating as a business, these operations are inevitably influenced by family involvement in the business. Thus, the original figure as developed in Chapter 3 (see Figure 6, page 120) has been revised as below.

![Figure 23: A Revised Conceptual Framework](image)

**Figure 23: A Revised Conceptual Framework**

**Mixed Embeddedness, Family Business Governance and the Ability of Family Firm to Achieve Economic and Noneconomic Goals**

Thus, it is suggested that the study sample indicates that social embeddedness may exert a higher influence in this integrative approach to governance, than economic embeddedness. The size of the family firms in the sample of this thesis may be an influence in this respect. That is, due to the size (as SMEs are mainly managed by the firm founder), social embeddedness significantly influences the ability of the family firm to achieve economic and noneconomic goals, even though there is evidence that supports the influence of economic embeddedness. Thus, when considering this, it is argued that the final conceptual model to emerge from this study is that depicted in Figure 24 below, where it is argued that social embeddedness significantly influences an integrative approach to governance and the ability of family firms to meet both economic and noneconomic goals.
Hence, the major implication that arises from the present study is that family firms and their managerial advisors must understand how to manage the influence of social embeddedness on governance if they are able to achieve their economic and noneconomic goals. That is, while not ignoring economic embeddedness, it is social embeddedness that counts.

**Figure 24: The Final Conceptual Framework**

*The Influence of Social Embeddedness on the Integrative Approach to Governance and the Ability of Family Firms to Achieve Intended Goals*

The aim of this chapter is to draw on the findings to present a discussion that addresses this in the following areas:

- The Effect of Relational Governance on the Ability of Family Firms to Achieve their Economic and Noneconomic Goals
- Embeddedness and Governance in Family Business

**The Effect of Relational Governance on the Ability of Family Firms to Achieve their Economic and Noneconomic Goals**

As presented in Chapters 5, 6 and 7 (the research finding chapters), the research findings suggest that family SMEs who participated in this study have used relational governance to facilitate family members’ interaction, including discussion of family-related and business-oriented issues. Family firms who participated in this study used informal and formal family institutions to discuss and resolve family and business matters. Some family firms even established formal governance such as an executive board to discuss important business matters (e.g. strategic decisions to enhance the firm’s contestability) with nonfamily professionals such as external consultants. Hence, family institutions, whether it is informal or formal, become
social platforms for the family to meet and exchange ideas among family members and nonfamily advisers. Daily working relationships reinforce the closeness of social interactions among individuals and deepen the knowledge base of family firms, thus promoting and enhancing levels of social interactions among family stakeholders. As discussed in Chapter 1 (see pages 50-51), these implicit, familial relationships influence how the ‘family’ manages the ‘business’. It is the familial relationships that enhance family cohesion. This in turn enables family firms to achieve the family’s goals (such as creating wealth) and provide business continuity (see e.g. Ben-Porath 1980; Clifford 1993; James 1999a, 1999b).

As the research finding also indicates, family firms in this study have small family management units (three to four family owners and/or managers). As a result, family members undertake multiple roles in owning and managing their businesses. The findings suggest that the smallness of their management unit, combined with the multiple roles they occupy, facilitate social interaction that is positive. Consequently, the interplay between the components of structural social capital (i.e. size of the family management unit, family institutions and social interaction) strengthens the network ties among members of the family management unit. Family firms develop family involvement in the firm’s operation through daily business activities, which enable management to maintain positive familial relationships and develop closeness among members of the family management unit. Through a social capital lens, the research findings generally support that the intertwining nature of family and business reinforces a common family responsibility and engagement to the firm.

However, as participated family firms in all phases of this study have small family management units, future studies can explore whether natural occasions for social interaction diminish and weaken the social ties between family members when the owner-family grows larger (Mustakallio, Autio & Zahra 2002). It would have been ideal if there were a variety of size of family management units among participants to examine how a larger unit may influence the level of social interaction. Unfortunately, the problems encountered in gathering data as described in Chapter 4 prevented this.
The findings also illustrate that through family institutions, frequent social interactions create opportunities for members of the family management unit to generate collective ideas, or a shared vision, which ideally complements family members’ collective ideas and values about the shared identity of a family firm (Nahapiet & Ghoshal 1998), and the business future (Mustakallio, Autio & Zahra 2002). For instance, the transcripts (associated with pathway 1A in Figure 13) support this result, as a shared vision helps ‘everyone to understand what our company stands for, what values we uphold. This helps make sure that top family managers have a common understanding of our values and goals’ (Owner-Manager, Case LC, 2009, 20 August), and consequently ‘guide(s) your business practices’ (Marketing and Administration Manager, Company QM, 2009, 25 August).

However, multiplexity can pose a challenge to create a strong shared vision, and more importantly to maintain the efficacy of family business governance, especially when the controlling family has difficulties in juggling family concerns with business imperatives (Moores 2009), as owner-family members adopt multiple roles in the business (Mustakallio, Autio & Zahra 2002). As the interview transcripts (associated with pathway 4 in Figure 10 and pathway 1 in Figure 13) illustrate, ‘the (business) problems follow you to home: you (family members) talk about business and you talk about staff, money and so forth at home’ (Managing Director, Company AM, 2009, 18 September), or ‘when we (family members) make decisions, should we use the family issue, or the financial issue (to make decisions), or both? (CEO, Company LI, 2009, 18 August). On the negative side, some family firms that made decisions based on favouritism rather than merit (e.g. creating a job for a family member) faced problems such as employees ‘threatening to leave the company…this decision was quite destructive to our company’ (Manager, Company B, 2008, April). The absence of formal governance (e.g. board monitoring) also seems to encourage personalism, especially when the family owner-manager predominantly controls the family firm, and has the authority to make the final decision mainly ‘based on gut-feel and experience’ (Manager, Company A, 2008, April), and consequently marginalised other family managers in the firm’s decision making process. In line with this

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100 As discussed in the Introduction (p.2), multiplexity is a feature of Australian family businesses, given that around 83 per cent of family members are directly involved in both the ownership and management of their family firms (Smyrnios & Dana 2010).

101 See Chapter 2, p.67; a family firm is characterised by personalism, when the unification of ownership and control concentrates and incorporates organisational authority in the hands of members of the controlling family.
context, it is not surprising to find that consistent with the KPMG Family Business Survey (2011, 2013), only less than half of the surveyed family SMEs in phase 2 of this study acknowledged the importance of board establishment to their long-term survival and growth. Almost 60 per cent of family firms that have boards that did not facilitate nonfamily directors’ participation\textsuperscript{102}, around 42 per cent of total survey respondents also agreed that they do not need a board as it constrained the owner-manager’s control on a firm’s operation, but a similar proportion of respondents said otherwise\textsuperscript{103}. These survey findings are consistent with findings in phases 1 and 3, as some family firms that had ‘boards’ only included key family members, albeit family firms aimed to ‘formalise’ governance by separating family priorities from business imperatives.

Nonetheless, on the positive side, the research findings of the study broadly support James (1999b)’s and Mustakallio, Autio & Zahra’s (2002) argument that strong relationships among family owners and managers contribute to the development of a shared vision that can foster long-term value creation, particularly leading to family commitment to strategic decisions and/or positive financial performance. For example, family members of some family firms in this study incorporate their shared values with business practices, which in turn influence the vision about the firm’s future strategies and direction, such as diversifying their markets (e.g. Cases AP and QM in phase 3) in the wake of strong competition, improving the quality of customer service (e.g. Company D in phase 1; Case AM in phase 3), professionalising governance by board establishment to not only maintain long-term relationships with clients and suppliers, but also to ensure the family remains engaged to the business (e.g. Case MC in phase 3). A widely shared vision among family members in turn produces commitment to strategic decisions that affect both the business and the family, and in turn enables the controlling family to achieve its intended goals by exploiting organisational resources and capabilities, making strategic choices and pursuing future opportunities (Habbershon, Williams & MacMillan 2003). Consequently, decision commitment results in the successful implementation of strategies (Dess & Origer 1987; Woolridge & Floyd 1990 cited in Korsgaard, Schweiger & Sapienza 1995), which in turn influences the ability of family firms to be able to achieve their economic and noneconomic goals.

\textsuperscript{102} See Appendix 10, Table G.
\textsuperscript{103} See Appendix 10, Table F.
In summary, the research finding provides a ‘micro view’ of ‘how the process of relational governance works’, while also reaffirming the complexity of family involvement in a family firm’s operation. The variance of family institutions and the size of the family management unit appear to influence the degree of social interaction among family members associated with the management unit. This helps contribute to the formation of a shared vision, which can be shaped by common family language or values (e.g. honesty, integrity and loyalty) that ultimately become an essential part not only in family life, but also provide guiding principles for business practices in the form of mission statements and codes of conduct, and a rationale to define the boundary of ethics (Staveren & Knorringa 2007). The research finding suggests that open communication is critical to developing this shared vision and to encourage knowledge sharing within the firm. Otherwise, personalism based on favouritism rather than merit prevails and subsequently influences the ability of the family management unit to foster a shared vision that effectively aligns family interests with business imperatives. The significance of noting this is that a shared vision entwines family and business on a pathway, which influences the ability of family firms to be able to achieve their economic and noneconomic goals. Thus, the research finding illustrates the concern of Australian family business about balancing family welfare with business imperatives (Moores 2009). More importantly, the finding enriches Mustakallio, Autio & Zahra’s (2002) findings, particularly in ascertaining the ‘nature’ of relational governance as not only an informal level of social control; but also an indispensable podium to facilitate family members’ discussions about family and business issues. This insight also reflects the argument of this study that family firms, particularly in the SME sector, espouse this unique approach to attain sustainability as a family business, as family influence contributes to a mutual commitment to the firm (James 1999b; Mustakallio, Autio & Zahra 2002).

The research finding also highlights that some family firms are aware of the limits of relational governance in relation to the ability of family firms to be able to...
achieve their intended goals, particularly in resolving problems arising from the 
*embedded contexts* of family business. This is further discussed in the next section.

**Embeddedness and Governance in Family Business**

As discussed in Chapter 3 (see page 97), the present study draws on the concept of ‘embeddedness' to theorise the 'context' that influences relational governance and the ability of family firms to be able to achieve their economic and noneconomic goals. The research finding indicates that a shared vision among members of the family management unit *ideally* promotes coherence in forming the family stakeholders’ expectations and opinions about the organisational goals. A shared vision, which reflects management consensus and understanding of the dynamics of the business environment, can subsequently motivate the controlling family to examine their roles in governance (e.g. the family firm's focus on formalising governance practices as a response to external uncertainties such as economic downturn and market instability). Given the multi-dimensionality of mixed embeddedness (social, economic, institutional), the next section begins with a discussion about how social embeddedness influences family business governance and the ability of family firms to be able to achieve their economic and noneconomic goals.

**Social Embeddedness, Family Business Governance and the Ability of Family Firms to be Able to Achieve their Intended Goals**

To begin, the following section discusses the structural aspect (i.e. network ties, closure) of social embeddedness within the context of a family firm's operation.

**Structural Embeddedness: Network Ties and Closure**

The research finding of this thesis illustrates that there are two levels of structural embeddedness in family firms: family and business. For example, the transcripts (associated with pathway 1 in Figure 15) illustrate that at the family level, some family members who work together in a small family management unit have strong social ties among themselves (see page 225). Nonetheless, some other firms suggest that ‘*a close personal connection with good relationships does not necessarily make each other more responsible for their decisions*’ (Owner-Manager, Case LC, 2009, 20 August), particularly when the family owner-manager practices personalism through a closed
but highly centralised network, and ‘always has the final say in every decision that we (key family members in the management unit) make’ (Manager, Company WO, 2009, 14 September).

At the business level, the interview texts (associated with pathway 1A in Figure 14) also indicate that most family firms interact with external stakeholders (such as clients, suppliers) on a regular basis and have established long-term trading relationships (ranging from ten to thirty years) with them if both parties share the same or similar values about business practices, such as ensuring that ‘they (long-term suppliers) value quality of the product for customers’ (Marketing and Administration Manager, Company QM, 2009, 25 August). Network ties between family business and its business counterparts are grounded in closeness among the individuals involved at the personal level. Family owners and/or managers emphasise the importance of relationships in influencing the ability of their firms to be able to achieve their intended economic and noneconomic goals. The text from interviews (associated with pathway 1 in Figure 17) illustrates that for family firms that do not have a board, good relationships at the personal level can help some family firms (that emphasise the quality of customer services) to ‘outperform competitors’ (Marketing and Administration Manager, Company QM, 2009, 25 August), and discourage clients to ‘source for alternatives (other product/service providers)’ (CEO, AP, 2009, 4 September)\textsuperscript{106}, possibly due to the fact that some family firms are ‘more aware of people needs’ (Owner-Manager, Company FR, 2008, 28 August).

Regardless of the formality of governance practices, family firms in this study generally agreed that strong, long-term relationships are critical to the family firm’s survival. As per the interview transcripts (associated with pathway 2 in Figure 18), some family firms that have a board even suggest that ‘the network that we have developed with our key stakeholders over the years does help us to get through the economy down period. In our case, to a large extent, such positive relationship helps our company to survive and grow’ (Managing Director, Company MC, 2009, 1 September). Similarly, one of the family firms (who participated in this study) that do not have a board also argued that strong relationships help to create the competitive advantage of

\textsuperscript{106} See Chapter 7, p. 231.
family SMEs; they can even help to survive when facing ‘some financial tough times…but our customers and suppliers were very tolerant with what we went through’ (Managing Director, Company LC, 2008, 24 August). However, good relationships are subject to some conditions, such as the ability of family firms to have a ‘good track record’ in terms of demonstrating loyalty and delivering good quality of products/services. Hence, through relational governance, family firms form a strong shared vision of allocating more time and resource aimed at maintaining long term personal relationships with key clients and/or suppliers, and providing best products and/or services. Examples include the use of surveys to collect customer feedback aimed at understanding ‘why some clients stay and why some of them didn’t come back’ (Managing Director, Company MC, 2009, 1 September), ‘whether our service has fulfilled their expectations (customers’ expectations) on us’ (CEO, Company LI, 2009, 21 August), or taking a ‘one-on-one, face-to-face’ approach by meeting with key clients when problems emerge.

Given the emphasis of the ‘personal’ aspect of business relationships, it is not surprising that most family firms in this study do not have formal contracts for business transactions; instead, the existence or absence of formal contracts depend on their industry’s or stakeholder’s requirement, such as the case of the multi-million construction industry¹⁰⁷. Strong networks support the ensuing business transactions, and generate opportunities for future cooperation. By adopting the long-term perspective on relationship building, family firms invest in sustainable mutual benefits, rather than immediate financial gain.¹⁰⁸

Briefly, as family business accounts for the wellbeing of the controlling family, managers and owners tend to adopt a sustainable view about business development, including relationship building. Hence, family firms show discretion in choosing their clients and suppliers. From the structural embeddedness perspective, the presence of strong network ties and closure exemplifies long-term, personal-based relationships of significance to a firm’s success (Uzzi 1997). From the relational embeddedness perspective, the key aspects such as relational trust and norms of reciprocity also assist in maintaining long-term business relationships. The next

¹⁰⁷ See Chapter 7, p.229
¹⁰⁸ See Chapter 7, pp. 228-230.
Relational Embeddedness: Relational Trust and Norms of Reciprocity

The research finding in phase 3 indicates that at the family level, key family members, who undertake the owner’s and/or manager’s role in family firms, have worked together in their firms for more than fifteen years. The transcripts (associated with pathway 1 in Figure 16) suggest that through repeated interactions over time between individuals, the long-term relationships between family members have enhanced relational trust, which are considered very important to them, because ‘it’s hard to work with your family or do business with somebody you don’t trust’ (CEO, Company AP, 2009, 4 September). The finding supports the view that relational social capital, including relational trust, constitutes a form of accumulated history (Nahapiet & Ghoshal 1998).

Likewise, at the business level, the interview transcripts (associated with pathway 1 in Figure 20 and Figure 21) illustrate the significance of relational trust in maintaining strong and long-term relationships between family firms and their business stakeholders.109 Similar to relational trust at the family level, family owners and managers argue that ‘time does matter when it comes to trust’ (CEO, Company AP, 2009, 4 September), and ‘trust does take time to develop and mutual trust will be stronger over a long period of time, given that people haven’t breached the trust relationships’ (Managing Director, Company MC, 2009, 1 September). Hence, relational trust and trustworthiness at the business level are also conditioned by time grounded in previous repeated interactions between the family firm and its long-term clients and suppliers. Some family firms in this study also suggest that ‘a lot of our business comes from the word of mouth, so because of that, they trust the person who told them’ (Marketing and Administration Manager, Company QM, 2009, 25 August); and word of mouth ‘grows itself, it helps to build up the level of mutual trust we have developed in the industry over the years’ (Operations Director, Company HD, 2009, 4 September).

As members of the family management unit acknowledge the importance of social embeddedness, the transcripts (associated with pathway 2 in Figure 20) indicate

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109 See Chapter 6, pp. 234-237 for the discussion of relational trust.
that in some family firms, a shared vision is formed through frequent social interactions via family institutions: ‘(good relationships and trust) positively affect long term business strategies, so we (family owners and managers) have to make sure that we treat our clients and business partners with honesty and integrity…and we can win our clients’ trust through the quality of our service’ (Operations Director, Company HD, 2009, 4 September). The text from interviews (associated with pathway 1 in Figure 19) also indicates that as a result, a strong level of relational trust embedded in enduring relationships shapes mutual expectations, enhances the quality of network ties, and subsequently determines cooperation between the family firm and its key stakeholders: ‘if you build a good relationship with a person for a long time then it seems the job will go on a lot smoother’ (CEO, Company AP, 2009, 4 September). Otherwise, ‘if you don’t trust the person who can do a good job then it would impact on how well and how quickly the service delivery is’ (Marketing and Administration Manager, Company QM, 2009, 25 August). Some family firms in this study even regard relational trust as the competitive advantage against rivalries in terms of employee retention (e.g. Cases AM, HD and LI) and enhancing productivity (e.g. Case QM). This collective view can influence the ability of these family firms to achieve their intended goals, particularly when family firms struggled to achieve the desired economic goals in the wake of environmental turbulence (i.e. market instability; financial adversities caused by the global financial crisis). However, similar to strong long-term business relationships, relational trust also does not come unconditionally but depends on whether the family firms have the ability to meet their goals, such as delivering promises to their long-term business clients and/or suppliers. The transcripts (associated with pathway 1 in Figure 19 (Company AM and Company QM) and pathway 2 in Figure 20 (Company HD)) indicate that it is because relational trust is ‘definitely something that needs to be earned and we need to work hard to achieve it’ (Operations Director, Company HD, 2009, 4 September) 110; or is based on ‘reliability and trustworthiness, so what we can do is to make sure that our price is competitive and the quality of our product is up to the standard’ (Marketing and Administration Manager, Company QM, 2009, 25 August), or quite simply, ‘if a client comes to my (the family firm’s) doorstep and complains about our product, we will deal

110 See Chapter 7, p.237; for Company HD, most of its clientele are long-term clients sharing more than five years of a business relationship with the owning family. Over the years these key clients have contributed around 80 per cent of the family SME’s total income.
with the problems straight away. Otherwise you will lose trust very quickly’ (Managing Director, Company AM, 2009, 18 September).

Briefly, the research sample of this study indicates that relational trust generated from a history of previous social interactions represents a fundamental basis for cooperation, and potentially creates a firm’s competitive advantage from a management perspective, as a trusting relationship can reduce the risk of opportunistic behaviour (Steier 2001b). However, as relationship building reflects a continuous process that is built over time, organisations can also create substantial barriers to competition through this social bonding (Gundlach & Murphy 1993). In addition, as family firms develop and expand, the role played by relational trust in governance may differ and can therefore influence the ability of family firms to achieve their economic and noneconomic goals.

**Norms of Reciprocity**

The research finding also highlights the importance of *norms of reciprocity* in influencing the functioning of relational trust and specifically how ‘people should treat others as they themselves would like to be treated’ (Lewis & Chamlee-Wright 2008, p.115). The interview texts (associated with pathway 3 in Figure 20) illustrate that some family firms in this study use loyalty and honesty as benchmarks to justify the trustworthiness of their business stakeholders, and prioritise decisions that are aligned with these values: ‘*We are only dealing with businesses who values are aligned with ours. Otherwise we will walk away (from the opportunities of business cooperation)*’ (Managing Director, Company MC, 2009, 1 September). This is consistent with the view that the historical trustworthiness of parties in previous interactions with others pre-determines cooperation (Burt & Knez 1996; Rousseau et al. 1998). The interview texts (associated with pathway 2 in Figure 20) also illustrate that norms of reciprocity contribute to the family firm’s view on whether a relationship should be maintained and business cooperation would continue: ‘*We treat our clients the way they want to be treated. Maintaining good relationships and trust with customers and stakeholders and obviously trying to ensure that they share the same values, these are all important and contribute to relationships and trust that we’ve developed for years*’ (CEO, Company AP, 2009, 4 September). Hence, norms of reciprocity shape the common ground between both buyers and sellers, which in turn could develop a mutual commitment between the family firm and the business.
stakeholders. This common ground needs to be established prior to any business transactions, mainly because family firms believe that the business inherits the name and reputation of the family.

Briefly, the research findings illustrate that relational embeddedness influences family firms, specifically relational trust and norms of reciprocity. On the one hand, respondents consider the high level of relational trust as being very or extremely important to both ‘family’ and ‘business’, or ‘you will build animosity among family members and it will then negatively affect the business side of the family firm’ (Manager, Company WO, 2009, 14 September). Consequently, ‘business can’t grow and we (the family firm) can’t get anywhere close to achieving our goals’ (Owner-Manager, Company FR, 2009, 12 September). Most family firms in this study therefore have invested time and resources in maintaining relational trust embedded in their long-term relationships with key stakeholders, as repeated exchange and successful fulfilment of expectations strengthen the willingness of trusting parties to rely upon each other (Rousseau et al. 1998). On the other hand, the findings also support the view that norms of reciprocity shape mutual behaviours of the actors involved in trust relationships, and their beliefs regarding the intentions of others in their associated social ties and networks (Sitkin & Stickel 1996).

**Summary**

The research finding supports the argument of Granovetter (1973, p. 1361), which highlights that ‘a combination of the amount of time, the emotional intensity, the intimacy (mutual confiding), and the reciprocal services’ characterises the network ties; and elaborates Coleman (1988)’s discussion about closure of a network within the context of family business operations. That is, a close network within and outside family firms (structural embeddedness) appears to co-exist with key aspects of relational embeddedness, such as norms of reciprocity and relational trust. From a long-term perspective, strong network ties incrementally enhance relational trust, mutual gain and reciprocity (Larson 1992).

The research finding supports the literature by illustrating that at the family level, as family relationships continue, increasing interdependence and interactions produce greater levels of trust (based on shared norms and values) among family members (Arregle et al. 2007). Similarly, at the business level, some family firms in this study
form a shared vision through relational governance. This vision is specifically about how and what the firm needs to do to develop the organisational social capital (OSC) that results from their interaction, communications and relationships with external stakeholders, and which enable the family firms to obtain resources from other firms (Arregle et al. 2007; Leana & Van Buren 1999). Examples of these as illustrated by the research finding include maintaining and strengthening the embedded structural (e.g. strong relationships) and relational (e.g. relational trust) social capitals between the firm and its key stakeholders (e.g. provide quality products or services; timely response to key client’s complaints). Thus, some family firms in this study allocated time and resources to ensure their promises to key clients/suppliers can be effectively and efficiently delivered, as they understand that long-term cooperative network ties can affect economic transactions, particularly in reproducing economic opportunities and flexibilities (Uzzi 1997), and enable them to secure present and future business transactions. If successful, strong OSCs help sustain the competitive advantage of family firms when confronting economic adversities. In essence, the research finding concurs with Meyer & Rowan’s (1977) and Oliver’s (1991) argument suggesting that network ties between individuals facilitate the diffusion of norms and reciprocation across the networks, and consequently, firms embedded in highly interconnected networks develop their shared behaviour expectations (Rowley 1997), such as following mutually agreed business ethical codes. Dense connections built upon strong network ties with shared norms are in turn consolidated by a strong level of relational trust.

While informing the significance of social embeddedness in family firm governance and the ability of family firms to be able to achieve their economic and noneconomic goals, the research finding also indicates that economic embeddedness influences the family management’s view about business decisions and management approaches, notably in formalising governance. This is further discussed in the next section.

**Economic Embeddedness, Family Business Governance and the Ability of Family Firms to be Able to Achieve their Intended Goals**

As already noted, the *social* aspect of mixed embeddedness can be conceptualised and enriched by the concept of social embeddedness (structural and relational). The *economic* dimension can be contextualised by the concept of environmental
turbulence. Environmental turbulence is defined as frequent and/or unexpected changes in technological and market conditions (Jaworski & Kohli 1993) or any factors outside the organisation that have a major influence on the success or otherwise of the business (e.g. Global Financial Crisis, market instability, or competition (Glassop, Hagel & Waddell 2008) in a free market economy.

The investigation of economic embeddedness was triggered by the exploratory finding in phase 1 (the interview texts associated with pathway 3 in Figure 11). Some family firms in the sample for this phase suggested that the decision to formalise governance is due to external factors, such as strong competition in the market and the client’s expectation about professionalism of family business governance: ‘When the company keeps growing fast and the market keeps expanding, we (the family firm) notice that there is a limit in terms of our capabilities. In response to this, we have recently hired a business coach to help us establish some formal plans for our company’s future’ (Owner-Manager, Company D, April, 2008).

This exploratory issue was further informed by the phase 2 finding111. For example, the correlation analysis indicates that business growth correlated positively and significantly to the family firm’s decision to formalise the family and business relationship, including the existence of a formal document that describes the relationship between family and business \((r=0.34)\). In addition, the decision to formalise the family and business relationship is positively correlated with the firm’s rational responses to embedded business environment, such as generating feedback frequently from clients/customers, and putting a substantial amount of analysis into key strategic decision \((r=0.28)\).

In keeping with the methodological approach adopted for the thesis, the phase 3 finding indicates that family business governance appears to be subject to market stability and the intensity of competitions. For example, family firms operating in a stable market prefer to maintain the ‘status quo’ in governance practices, particularly in adapting relational governance to resolve business matters. One of the possible reasons to explain this could be the ability of family firms to predict the market trend and act accordingly within their knowledge and capability. Some family firms value the flexibility of relational governance, as its informality enables

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111 See Chapter 6, pp.205-207. 
family members to trigger timely and effective responses to changes in the marketplace, whereas formal governance (e.g. board monitoring) often requires management of accountability from non-family directors in decision making. The interview texts (associated with pathway 1A in Figure 21) indicate that paradoxically, relational governance helps shape the resilient nature of family SMEs toward managing adverse conditions. This is because family members can act ‘without having to go through layers of decision making, things can be discussed and solved pretty quickly’ (Operations Director, Company HD, 2009, 14 September); or ‘constantly monitor business cost so we know where changes need to be made and rectify problems, being able to do it effectively and quickly is important’ (Managing Director, Company LC, 2009, 24 August). This contributes to the original discussion by Mustakallio, Autio & Zahra’s (2002) by acknowledging the informal nature of relational governance, and supports the argument that relational governance encourages flexibility and information exchange, which are critical to firms that manage business-to-business relationships in environmental uncertainty (Poppo & Zenger 2002). Managing this environmental uncertainty can thus be viewed as an internal ‘push’ to maintain relational governance in family firms.

Despite some family firms in this study recognising the ‘advantages’ of adapting relational governance only; for some other family firms who participated in the study, the formalisation of governance practices is subject to a cocktail of external factors, such as strong competition, market instability, increasing demand in the industry, and even the stereotypical view about family business as an unsustainable ‘local corner store’ 112. The text from interviews (associated with pathway 1 in Figure 21) illustrates that ‘given the market growth and expansion we (the family firm) have spent more time on improving professionalism of the business and build up a better business planning system. When I talk about professionalism, it’s mainly about improving governance and the overall system of our business’ (Owner-Manager, Company AT, 2009, 23 August), such as systemising business activities (such as strategic planning), and monitoring business operations with the participation of external advisers and consultants. Other family firms have made efforts to re-brand their firms by showing their long-term clients and suppliers that they have ‘made a step forward

112 See examples in Chapter 7, p.244-245.
decision in improving our (the family firm’s) governance, such as formalising our business plans’ (Marketing and Administration Manager, Company QM, 2009, 25 August).

However, the study argues that formal governance is not established as a substitute for relational governance. As a response to Mustakallio, Autio & Zahra’s (2002) call for research, the study thus captures the complementary relationship between the two governance mechanisms: relational and formal. As already discussed in the previous section, some family firms (e.g. Cases AM and HD) maintain relational governance as an informal level of social control, mainly due to its flexibility in resolving daily business matters on a timely basis. Through daily conversations and social interaction, relational governance enables family owners and managers to generate a variety of ideas, create a shared vision, and make timely decisions to respond to imminent business needs. This scenario has effectively ascertained the ‘informality’ that characterises a family firm’s operation, as relational governance does not exert the same level of control and supervision as formal governance (i.e. board). This may help to explain why most family businesses do not believe the success of family firms relies on formal rules and procedures (Smyrnios & Dana 2010). The next section discusses the relationship between relational and formal governance in family firms in greater depth.

The Relationship between Relational and Formal Governance in Family Firms

As discussed in the previous section, the research finding illustrates that either the absence or existence of formal governance in family business is contingent upon the ‘externality’ (i.e. environmental turbulence) and the ability of members of the family management unit to form a shared vision that effectively responds to market growth and stakeholders’ expectations. Based on the family SMEs in this study, Figure 23 shows that there is a relationship between relational governance and formal governance: it is in fact the existence of relational governance, which facilitates the controlling family’s shared vision of whether or not formal governance needs to be established, and how formal governance assists in resolving business matters by delegation.113

113 See Chapter 7, pp. 248-249.
While further responding to ‘why’ these governance mechanisms are complementary rather than contradictory, this study argues that family firms realise the ‘value’ of each governance mechanism in optimising the ability of family firms to be able to achieve their economic and noneconomic goals.\(^{114}\) These findings respond to Astrachan & Jaskiewicz (2008)’s discussion, which suggests that family firms are not necessarily motivated by purely financial returns (for example, business growth), but also nonfinancial outcomes such as positive relationships among family members and their associated business partners: ‘We all want to see the business succeed but we all want to do it with the right values. We don’t want to cheat anyone, so we’d rather grow a little bit slower, but be honest with them (clients and suppliers) My father is really strong with this’ (Marketing and Administration Manager, Company QM, 2009, 25 August). In other words, these family firms acknowledge the fact that the success of family firms depend not only on the ability to manage the economic issues, such as business growth and economic turmoil (Bauer 1993 cited in Gubitta & Gianecchini 2002), but also noneconomic objectives, such as family cohesion, and the attachment to a community where the family firm was founded (Astrachan & Jaskiewicz 2008). As new issues arise, these emerging forces will catalyse the process of separating ownership and management (see e.g. Berle & Means 1932; Jensen & Meckling 1976). For example, the case of Company MC illustrates that the controlling family formalised governance in response to strong competition (see pages 246-247). However, even when some family firms pursue formal governance strategies in response to demands from external stakeholders, the significant observation of this study is that relations remain influential; this includes Company MC, which was the only family firm that implemented an executive board with nonfamily members’ involvement in key business decisions\(^{115}\).

\(^{114}\) For example, Case HD (see Chapter 7, p. 241-242) valued the informality of relational governance, particularly in decision making as it helps trigger timely and effective response to changes in the business environment.

On the other hand, Case MC (see Chapter 7, page 246, 249) highlights the functioning of formal governance (i.e. board) in coordinating the firm’s long-term strategic development, and clarifying the family’s roles at the business level. Despite this, relational governance is still influential, particularly in facilitating daily informal meetings and strengthening relationships among family members.

\(^{115}\) See Chapter 7, p.246 regarding the composition and the role of executive board in Company MC.
The Relationship between Formal Governance and the Ability of Family Firms to Achieve their Intended Goals

The research finding also clarifies proposition 9, which suggests that in family firms, formal governance influences the ability of family firms to achieve their economic and noneconomic goals. By establishing formal governance, family firms can develop commitment to strategic decisions with the input of non-family managers. Formal governance mechanisms not only help some family firms make rational decisions in environments characterised by rapid changes in technology and market demand, but also implement strategic planning by integrating knowledge and expertise from nonfamily members with decision-making. For example, an executive board assists in bringing ‘skills and accountability to the company…to counteract the downside of the family business, as what is good for the family may not necessarily be good for the business’ (Managing Director, Company MC, 2009, 1 September). In essence, an executive board formalises the delegation process (Gubitta & Gianecchini 2002), which in turn influences the ability of family firms to be able to achieve their intended goals, particularly in developing commitment to strategic decisions while maintaining good relationships among family members.116

Until now, Figure 23 summarises the discussion of findings of this study, which helps to map out the interrelationships between mixed (social and economic) embeddedness, family firm governance, and the ability of family firms to achieve their economic and noneconomic goals. The findings illustrate that at the family level, social embeddedness acts to diminish the strong influence of relational governance in guiding the ability of family firms to achieve their intended goals. Economic embeddedness, such as strong competition, market instability and increasing demand of key stakeholders, can motivate family SMEs to examine the role of relational governance in influencing their ability to be able to achieve their intended goals, and in turn ‘push’ them towards professionalising governance (e.g. adopt formal governance measures such as boards).

As a result, this study suggests that family firms have used an integrative approach to governance that melds both relational and formal governance in guiding family members to achieve their economic and noneconomic goals (see Figure 24).

116 See Case MC; Chapter 7, pp. 246-249.
Figure 24 also shows that compared to economic embeddedness, social embeddedness appears to exert a higher influence on this integrative approach to governance. The research finding indicates that family leaders emphasise the importance of being able to maintain and strengthen positive relationships both at the family (between family members) and business (between family members and their key stakeholders) levels. Hence, Figure 24 represents the final conceptual model of this study, and depicts that social embeddedness moderates an integrative approach to governance that can influence the ability of family firms to meet their economic and noneconomic goals.

**Conclusion**

The originality of this study is to examine the dynamics of relational governance and how mixed embeddedness (social, economic and institutional) influence both relational and formal governance in guiding the ability of family firms to achieve their economic and noneconomic goals. To untangle this conundrum, the research finding illustrates the existence of multiplexity\(^{117}\) that characterises governance in family business, and most of the participating family firms in the study. This unifies ownership and control, thus incorporating authority in the hands of family leadership (Carney 2005) and exerting personal influence by integrating their vision with the business future (Chua, Chrisman & Sharma 1999). As family members are responsible for the success (or otherwise) of their firms, some family firms who participated in this study managed to capitalise on the advantage of multiplexity to safeguard the owning family’s long-term interest in the firm.

Given the strong presence of family involvement in business, it is of no surprise that in reality most family SMEs in Australia lack a formal governance structure to provide independent advice and regulate the relationship between the owner and the manager (Moores 2009; KPMG Family Business Survey 2011, 2013). Consistent with other research findings (see e.g. Glassop, Hagel & Waddell 2007, 2008; Moores 2009; Smyrnios & Dana 2010), the result of this study also shows

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\(^{117}\) As discussed in the Introduction of this thesis, in family firms multiplexity is referred to as the same people generally play multiple roles as family and owner in the one firm (Chua, Chrisman & Sharma 1999; Gersick et al. 1997; Glassop 2009; Habbershon, Williams & MacMillan 2003; Portes, 1998; Tagiuri & Davis 1996). Multiplexity is a feature of Australian family businesses, given that approximately 83 per cent of family members are directly involved in both the ownership and management of their family firms (Smyrnios & Dana 2010).
that the majority of family firms do not have a board of directors or other formal governing bodies (for example, formal business meetings).

Instead, the research finding suggests that the sample of family SMEs adopted relational governance, which significantly influences family business and the ability of family firms to meet their intended goals. By adopting this informal level of social control, the power of social capital is ‘amplified’ through relational governance, especially when members of the family management unit adapt informal and formal family institutions to develop close personal relations through frequent social interactions. This subsequently forms a shared vision that aligns the family welfare with values and business imperatives and contributes to the success of family SMEs who participated in this study. Given the significance of relations in influencing family business governance, it is not surprising that the family firms in this study and most Australia family businesses used an informal approach to manage the business, and believe that formal rules and procedures are not necessarily associated with family business success and wealth (Smyrnios & Dana 2010).

Nonetheless, the present study argues that while acknowledging that relationships remain influential in governance in family firms, the mixed embedded contexts (mainly social and economic) influence family business governance and the ability of family firms to be able to achieve their goals at different levels of complexity. From the social embeddedness perspective, members of the family management unit maintain positive relationships not only among themselves, but also with their long-term business stakeholders who share the same values and norms. These close network ties, which sustain personal-based business relationships, subsequently strengthen relational trust and norms of reciprocity, and over time shape the family brand as trustworthy and sustainable. At the business-to-business level, network closure also enables some family firms in this study to leverage the strength of relational trust, which forms the basis of a ‘gentleman agreement’ in lieu of formal contracts (Granovetter 1985; Poppo & Zenger 2002; Uzzi 1997).

Within this social embeddedness context (network closure, relational trust, norms of reciprocity), the research finding also suggests that economic embeddedness becomes a ‘pull’ factor that motivates family members to form a shared vision,
which recognises the ‘limit’ of relational governance. This in turn influences the family firm’s ability to be able to achieve its goals, such as formalising governance (e.g. establishing an executive board) to incorporate the nonfamily professionals’ knowledge and expertise into strategic planning for the firm’s future and hold family members more accountable for their decisions.

Most importantly, the research finding indicates that governance mechanisms (formal and relational) complement, rather than contradict one another as each of them serves its distinctive role in optimising the ability of family firms to meet the intended goals; such as adopting formal governance (i.e. board) to empower decision making to independent non-family managers and professionals. This study argues that it is this mosaic of governance that provides an attainable pathway for family business to remain sustainable.

In addition, the research finding responds to the call for formal governance based upon social embeddedness (i.e. expectations from long-term key stakeholders that inspire family firms to improve their performance), rather than pure financial objectives (i.e. business growth). Thus, Figure 24 depicts that social embeddedness seems to exert a higher influence on the integrative approach to family business governance than economic embeddedness by enabling family members to integrate their family collective interests with business imperatives. The size of the businesses in this research sample of this study (i.e. family SMEs) may be an influence of this respect, as the majority of these firms remain owned and managed by the founders. As such, the conceptual model of this study is considered dynamic rather than static, as it can be subject to the life cycle of the family firm (see Conclusion chapter, ‘Implications for Managerial Practices).

Hence, the study has made an original contribution to analyses about governance in family business. The traditional approach (see e.g. Alchian & Demetz 1972; Berle & Means 1932; Jensen & Meckling 1976; Roe 1994; Williamson 1986) adopting the agency perspective suggests that the increase of business complexity and financial needs weaken the personal dimension of the decision makers of a family firm. Following this assumption, changes in governance should aim to separate ownership from management and control. In these cases, the family network disappears, and management is strengthened by non-family managers in a family.
firm (Gubitta & Gianecchini 2002). Nonetheless, the central argument of this study is that formal governance does not necessarily weaken the owning family’s presence in governance, particularly the influence of relations on the functioning of a family firm.\textsuperscript{118} The key implication of this is that, given the significance of family businesses in any economic structure, understanding how this business unit preserves its uniqueness while optimising the firm’s ability to meet its economic and noneconomic goals is critical to scholars and policy makers worldwide. The finding in itself reflects the distinctive characteristics of family SMEs, and emphasises that analyses in family business governance need to explore the noneconomic components; adopting a social capital perspective to examine the role of relationships in a family firm’s operation assists in this task\textsuperscript{119}. The conclusion further discusses the recommendations for future research.

\textsuperscript{118} For instance, family owners and managers established ‘boards’ to facilitate their own involvement in enhancing management and supervision (see pp.245-246).

\textsuperscript{119} This thesis recognises the impact of ‘relationships’ and explains its significance in characterising the uniqueness of family business. Notwithstanding this, it is not to suggest that the economic aspect of a family firm should be overlooked. This thesis supports the position that like other organisations, family businesses are also subject to the ‘test’ of economic performance such as profitability and business growth. The focus of the central argument is however to adopt a new perspective in advancing the understanding of the complexity, particularly the relational aspect inherited in family business governance.
Conclusion

The absence of effective governance mechanisms challenges the long-term sustainability of family business.

Feltham, Feltham & Barnett (2005)

The significance of the present study is to provide an understanding of how family business governance influences the ability of family business to achieve economic and noneconomic goals. The research findings indicate that while relational governance exerts a strong influence on family business, mixed embeddedness (largely social and economic) also challenges the degree that relational governance can exert on guiding family firms in achieving their intended goals. It is subsequently argued that family firms should adopt an integrative approach to governance (i.e. relational and formal) to respond to the influence deriving from economic and social embeddedness: while the former ‘pushes’ family members to formalise governance measures such as boards, the latter ‘pulls’ family business towards adopting an integrative approach to governance. In summary, being able to develop strategies to manage relational governance is paramount in sustaining the ‘family’ in the ‘business’ for future generations.

While the research sample of family SMEs in Western Australia supports this finding, the generalisability of the research result may be questioned from a quantitative research perspective: that is, to what extent does this study represent the reality of family business governance? In keeping with the methodological approach adopted for the study as outlined in Chapter 4, it is suggested that future research should be conducted in other areas of Australia and possibly other countries in order to understand the propositions further.

Hence, it should be noted that this study only represents one contribution towards this area of research. Constructing a coherent underlying framework remains a challenge for family business researchers to unravel the dynamics of governance and its impact on the ability of family firms to meet their economic and noneconomic goals. Given the difficulties in accessing the West Australian family
business community, it is suggested that research drawing on the same methodological approach should be conducted with a larger sample group.\textsuperscript{120}

Given the small sample responses received to the survey questionnaire, the present study may not suffice the quantitative researcher’s request in enumerating frequencies, or achieving statistical generalisation (MacCallum, Widaman, Zhang & Hong 1999; Yin 1989). While mapping the interrelatedness of variables framed by the theoretical model, correlation analysis only indicates bivariate relationships between the constructs. For quantitative researchers aiming for statistical generalisation, it is suggested that the researchers test the model with a larger sample, which would help facilitate other multilevel analyses such as multi-regression analysis and structural equation modelling. It is believed that these analyses can further flesh out the underlying structure of this study’s conceptual framework from a quantitative research perspective.

Having acknowledged these practical constraints, the variables examined in the study are therefore limited. From a quantitative researcher’s viewpoint, developing appropriate measures for structural and relational embeddedness within the family firm’s context is essential in order to achieve statistical generalisation of the theoretical model of the study. These trade-offs are due to the researcher’s attempt to examine governance practices, its embedded contexts and how it may influence the ability of family firms to be able to achieve their intended goals within one conceptual framework. This has been an exhaustive but comprehensive task. It is hoped that this study can therefore provide pointers for further research into these important issues.

Nonetheless the methodological approach utilising mixed methods has both qualitative and quantitative data collection. From a methodological perspective, the adoption of this approach has thus assisted in enhancing the originality of the study within the family business context. It may also avoid the mono-method bias that threatens the validity of research conducted in business settings, thus hindering the development of theories, particularly in the field of organisational behaviour research (Donaldson & Grant-Vallone 2002). Notwithstanding the philosophical differences between quantitative and qualitative methods, these methodological

\textsuperscript{120} See Chapter 4, ‘Limitation of the Study’, p. 170.
approaches can be effectively integrated due to their complementary strengths and weakness (Brewer & Hunter 2006; Sieber 1973 cited in Small 2011). Despite the reassurance of validity in Chapter 4 (see pages 167-168), and the general support that the propositions received, it is suggested that future research test the proposed theoretical model with empirical data from multiple sources. Given the exploratory nature of the study, the next section discussed a number of issues for future studies.

**Sustainability of Family Business**

First, given the unification of ownership and control, it is believed that the alignment of family goals and business objectives remains a constant challenge to family owners and managers. On a positive note, family firms use familial relationships as network ties to develop closure, or family cohesion, and strengthen the emotional bonding experienced by members in the family (Olson et al. 2003). Ideally, this strong social capital shared between family members motivates them to achieve not only the family’s goals, but provide business continuity (Ben-Porath 1980; Clifford 1993; James 1999a, 1999b).

While recognising the flexible nature of relational governance in decision-making, it is critical to develop strategies that counteract the contradiction inherent within family business that arises from the multiple occupancy of the roles of owner and manager by the same family member (Davis & Stern 1980; Lansberg 1983). Hence, formal governance needs to be established in order to heighten accountability and improve the quality of decision making and planning (Smrynios & Dana 2010), and more importantly, constrain managers’ actions (Core 2000) and minimise the impact of matters such as parental altruism in adversely affecting the controlling family’s ability to exercise self-control (Lubatkin et al. 2005). This is because formal governance assists in regulating the interests and concerns of the stakeholders of family firms. However, the research finding indicates that not many family firms take a proactive stance in embracing the challenges caused by external factors such as market growth and competition. In the research sample of this study, family SMEs operating in a stable market regard relational governance as an attainable pathway to sustain the business entity, as it is considered sufficient to assist the family management unit in achieving their family and business imperatives. One possible explanation for this is that stable markets allow family SMEs to forecast business trends and develop strategic plans in advance, thus lacking any imminent
‘push factor’ to professionalise governance. As the research finding of this study shows, 42.3 per cent of family firms in Australia strongly agreed (23.1 per cent) or agreed (19.2 per cent) that formal governance such as a board is unnecessary as it constrains the owner-manager’s control (see Appendix 10, Table F).

Briefly, sustaining a family dynasty is a multifaceted problematic because a family is constantly at the intersection of sub-systems (the controlling family unit, the business entity and individual family members). Given the substantial financial investment and emotional attachment to the business, the owning-family is almost obliged to optimise firm performance by serving a multitude of purposes and constituencies within and outside the firm. To ensure firm sustainability, the family must develop a clear infrastructure to manage the interrelationships of people, business, and investment (Jaffe & Lane 2004).

The research findings of this study also illustrate the significance of relational governance in fostering formal governance. This only comes to light as this study adopts a social capital perspective that, as a result, highlights the link between relational and formal governance. While agency theory has been predominantly used in analyses of governance in family firms, this original finding once again supports the argument that family business is unique in terms of its multiple role structure, thus making it almost impossible to depersonalise the duality of ownership and control. It is this distinctive interplay that distinguishes family firm operations (Glassop 2009; Habbershon, Williams & MacMillan 2003). Hence, it is of no surprise that there is an absence of formal ‘best practice’ governance structures such as independent boards in family firms. Instead, the research sample of this study suggests that positive relationships that are made up of kinship and trust create family cohesiveness amongst members of the controlling family, which in turn enables the firm to build informal, self-reinforcing governance mechanisms that complement the formal contractual-based governance emphasised by agency theorists (Mustakallio, Autio & Zahra 2002). Briefly, this study argues

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121 As discussed in the Introduction (see p. 12), a family firm can be viewed as a business that is specifically owned, managed and controlled by more than one family member of a single family; and a firm that captures the tension stemming from the systematic interaction between family, ownership and business management, where family influence demonstrably affects decision making and performance of the business.

122 See Chapter 8, pp. 271-275.
that it is the social capital perspective that captures the full effect of the behaviours and attitudes of owner-managing families on governance practices. However, it would also be ideal for future research to delve further into the role of industry in family business analyses. This is discussed further in the next section.

**Controlling for Industry**

As indicated in Chapter 4, the private-sector nature of family firms creates significant impediments in researching family firms from a specific industry sector.\(^\text{123}\) Hence, the selection of participants in the present study did not control for industry. While elaborating on Nooteboom’s (2002) argument that repeated interactions over time between individuals enhance relational trust and continuous reciprocal behaviours, whether this notion of relational embeddedness is contingent upon the industry sector remains a future topic for family business studies. As most of the participating family firms were from the service industry, it is not surprising that at the business level, family members emphasise the significance of building trust relationships, or what is called ‘the gentleman agreement’ based on the firm’s long-term reputation (Granovetter 1985; Uzzi 1997). In fact, most family firms indicate that the basis of relational trust can be overlapping mainly because individuals are inseparable from family firms, where ownership and management are combined.

What contextualises relational trust within the family firm’s perspective therefore requires further exploration. In other words, whether the importance of relational trust between individuals is conditional on the industry sector could possibly be a future research interest for family business studies. Future research that controls for industry would greatly enhance our understanding of relational trust within the context of family business governance, and whether this social capital is also transferrable across generations. The next section discusses this in detail.

**Transferability of Social Capital in Family Firms**

Family business longevity continues to be an exploratory topic in Australia. Despite a large body of literature on succession planning in family businesses (Sharma, Chrisman & Chua 2003; Sharma 2004), what causes the demise of Australian

\(^{123}\) See Chapter 1, p. 19.
family business is not understood (Glassop 2009). Given the limited accessibility to family firms, it is beyond the scope of the present study to further examine the transferability of social capital in family firm; for instance good long-term relationships, relational trust and norms of reciprocity with key business stakeholders. For instance, from a strategic management context, relational trust can be regarded as an important intangible asset in which resides a strategic advantage. Hence, the transfer and management of relational trust across generations may contribute to the sustainability of family business. However, there is limited management literature that has interrogated the modes and means of managing social capital. While positioning social capital as assets embedded in relationships with individuals and organisation, Coleman (1988) and Nahapiet & Ghoshal (1998) argue that social capital, or ‘relational wealth’, is not easily traded or transferred. Having considered the preservation and accumulation of social capital as fundamental to economic prosperity (Fukuyama 1995), Steier (2001a) argues that family businesses need to realise the value of this intangible asset that contributes to firm survival and continuity.

Having positioned succession as the most significant activity for family firms, Steier (2001a, p. 273) acknowledges that ‘the concept of social capital provides a useful perspective from which to examine succession and the accompanying social processes within family firms’. After examining the dynamics of social capital within the context of succession, Steier (2001a) suggests that the transfer and management of social capital are contingent upon the situations that mould a family firm’s operation. As the existing literature on succession planning focuses largely on transferring and managing physical and human capital, Steier’s (2001a) study concludes that more attention should be devoted to the development and transfer of social capital within family firms.

In light of the research findings presented and discussed in the study, it is argued that the transferability of social capital can be examined from different levels of analysis. This is not only at the individual but also organisational, interorganisational or societal levels. Having considered social capital as forces that

124 Cited in Glassop (2009); Smyrnios and Walker (2003) claim that only 17 per cent of Australian family firms make it to the third generation. According to Smyrnios & Dana (2010), only 25.3 per cent of family firms selected a leadership successor.
affect economic developments by creating and sustaining social relations (Turner 2000), it is suggested that social capital can be widely studied across different socio-economic contexts. Family firms provide a useful focus to engage in a study such as this, given the significance of social capital as illustrated in this study in influencing their ability to meet economic and noneconomic goals.

As already noted, one of the original findings of this study is the complementary relationship between relational governance and formal governance. The attempt has been to provide an analysis of this in this study. This is further discussed in the next section.

The Relationship between Relational and Formal Governance

The tentative relationship between relational and formal governance can become yet another future research interest. Consistent with the study from Mustakallio, Autio & Zahra (2002), the present study indicates that it is largely the nature of social relationships among the owners and managers that sustain the uniqueness of a family firm’s operation. It is believed the conceptual framework of the study (see Chapter 8, Figure 24, page 257) has provided one important snapshot that captures the systemic interactions between family and business. This is further clarified by the research findings that explain the propositions. Facilitated by strong personal ties, the ensuing interactions among family members and their business stakeholders sustain the firm’s governance mechanism(s) and its impact on the ability of family firms to achieve their noneconomic goals (e.g. good relationships based on the same values and voluntary reciprocation with key business stakeholder) and economic outcomes (e.g. board establishment) and commitment to strategic decisions.

As presented in Chapters 5, 6 and 7, mixed embeddedness exerts influence on the family firm’s integrative approach to governance, which melds both relational and formal governance that in turn guides the firm to be able to meet their economic and noneconomic goals. Previous research (see e.g. Mustakallio, Autio & Zahra 2002; Montemerlo et al. 2008) highlights the relational and formal perspectives in

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125 For example, see pp. 286-287 for ‘Social Capital and Cultural Differences’ discussion.

126 See Chapter 8, pp. 272-274 for ‘The Relationship between Relational and Formal Governance in Family Firms.’
studying family business governance. Despite this, these studies have not conducted analyses to explain why relational and formal governance in family firms co-exists.

Responding to the research calls from Mustakallio, Autio & Zahra (2002), the present study explores the relationships between the formal and informal levels of governance, and discovers the complementary nature of both governance mechanisms. While investing in formal governance strategies, family members value relational governance as an informal but vibrant social control mechanism to sustain strong social capital such as network closure and relational trust. Given the exploratory nature of the finding, future research can seek to further understand the effect of relationships and other social capitals (i.e. structural, relational and cognitive) on the process of formalising governance within family firms.

From a theory development perspective, future research should also take cultural difference into account when examining the role of social capital within the family business context. This is further discussed below.

**Social Capital and Cultural Differences**

Given that business transactions of family firms are rarely purely economic (Steier 2001a), future studies can examine cultural differences, particularly the personal role(s) played by family in an exchange and cooperative business relationship. For instance, Huang (2003, p. 8) discusses the relationship between social capital and ‘guanxi’, the Chinese word which refers to the ‘contact and connection between people, or particular people with whom one has a strong connection’. Interestingly, Walder (1986) argues that strong personal ties, or guanxi, substitute impersonal market transactions in a Chinese society. According to Walder (1986), guanxi resembles social relations involving the exchange of favours or a reliance on personal connections to obtain the private or public interests. Referring to connections of informal relationships that facilitate reciprocity, Lovett et al. (1999) argue that guanxi dominates business activities in China and East Asia. Briefly, future studies can examine the cultural connotation of social capital within different personal and business contexts.

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127 See Chapter 7, pp.220-227
**Implications for Managerial Practice**

In Australia, the adoption of business governance mechanisms and practices appears to be influenced by a family firm’s size (KPMG Family Business Survey 2013). As discussed in Chapter 3 (see page 115), the founder of the controlling family often needs to manage both the family dynamics and the external business imperatives (Bauer 1993). Hence, ‘family business stewards in the early life stages of the business typically favour informal governance and control mechanisms’ (KPMG Family Business Survey 2011, p. 5). Formal governance such as boards is also commonly absent in the first generation, especially when the owner manages the company directly and makes all company decisions (Brene, Madrigal & Requena 2011).

As a firm expands, a high level of personal control by the founder may diminish when the family firm faces environmental uncertainties, such as business growth and complexity derived from changes in marketplace and competition. As new issues arise, these emerging forces will activate the process of separating ownership and management (see e.g. Berle & Means 1932; Jensen & Meckling 1976). In other words, additional complexity associated with the external environment can ‘push’ family members towards adopting formal governance. The KPMG Family Business Survey (2013, p.22) finding indicates that the presence of a formal board of directors is greater (72 per cent) in larger firms as compared to around 31 per cent of small family businesses. Similarly, while 39 per cent of large family businesses had a family council, only 21 per cent of medium size and 18 per cent of small size businesses had a family council in place.

Likewise, the research sample of this study indicates that family SMEs mainly adopt relational governance and only one of them whose business had grown rapidly in recent years established an executive board with independent directors. Consistent with the KPMG Family Business Survey (2013)’s finding, institutionalising governance by adopting formal governance measures (e.g. boards) was not a major concern for family SMEs of this study. Albeit smaller businesses might not be able to conceptualise the importance and value of professionalising governance structure, the managerial implication for family SMEs is to develop an in built flexibility to accommodate the push-pull tension between relational governance and the influence of matters within the social and economic contexts on
shaping family governance practices in business. As the study shows, relations associated with the family and the external environment influence the ability of family firms to meet their economic and noneconomic goals. Thus, the major managerial implication that arises from the present study is that it would be of benefit for family SMEs to develop strategies that enable them to manage relational governance before the firm becomes larger and more complex.

Conclusion
There is a growing use of social capital to explore family firm’s operation (Arregle et al. 2007; Hoffman, Hoelscher & Sorensen 2006; Dane et al. 2009; Sorenson, Goodpaster, Hedberg & Yu 2009). A major contribution of the present study has been the application of social capital to theorise family firm governance and its embedded contexts, which in turn enables the researcher to better understand the intertwining effect of governance and embeddedness. For those directly concerned with the effect of governance on the performance of family SMEs, this study has provided a theoretical framework that draws on social capital to analyse the dynamic nature between elements of governance, embeddedness and performance.

Given that family firms account for a significant level of economic activity within the Australian economy, it is believed that the present study contributes to the family business research on governance within an Australian context. This study is considered significant to the field, particularly in contributing to the understanding of what represents good governance practices for private family firms, their performance, and by implication, sustainability of this important sector of the Australian business community. Family-owned firms are generally regarded as being informally managed and hence less professional than non-family firms (Glassop, Ho & Waddell 2005; Glassop 2009) yet more flexible in management practices (Gulbrandsen 2005). This study supports this scenario, as the dominant mode of governance is relational in family firms, particularly in the SME sector. Overall, given little references provided by government and taxation policy makers, family firms are generally assumed to be the ‘corner store’ and ‘small business’ (Authority of the Senate 2009; Glassop 2009). Having taking the unique issues facing family firms into account, it is believed that the study advances family
business research by projecting a new direction of understanding this unique socio-economic entity as a distinct field of inquiry.
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Appendix 1
Pre-Interview Questionnaire Survey
(Phase 1 Study)

1. Which of the following applies to your family business?
   - Small (fewer than 25 employees)
   - Medium (26 to 99 employees)

2. Type of business & Industry Sector (Please specify)

3. How long has the business operated? (When was the business first established?)

4. What is the ownership structure of the business? (Who owns the business? What is the ownership distribution?)

5. Number and role of family members actively involved in the family business as owners, and/or as employees

6. Number of full time equivalent employees (including family members)

7. Has the business been profitable over the past three years?
March 2008

Dear Sir/Madam,

**Project Title**: The Effect of Governance Practices on Firm Performance of West Australian Family Business

My name is Donella Caspersz and I am a lecturer at the Business School of the University of Western Australia (UWA). I am the supervisor of Mr. Jeffrey Lou, who is completing his PhD at the UWA Business School.

We are conducting a study among Australian family firm managers to understand family firm governance and its effects on long-term business performance. On the Australian economic landscape, family and privately-owned businesses represent 97% of business nation-wide (The MGI Group 2006), and have contributed to economic success and prosperity of Australia over the years. However, governance in family business remains under-researched.

The objectives of the study are to:

1. Identify factors influencing management in Australian family business; and
2. Investigate the governance practices of family business and its effect on family firm performance.

We are writing to ask you to participate in this research. Your contribution is invaluable in leading to a better understanding of governance and firm performance in West Australian family business. This interview is anonymous and will take approximately one and a half hour of your time. Your response will be kept confidential and used only for this research project. Access to data is restricted to the researcher ONLY and no individual or organization will be named.

Should you have any queries about this study, please do not hesitate to telephone 6488 2927, 6488 2934 or fax 6488 1055. Thank you for your cooperation.

Yours Sincerely,

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CONSENT FORM

The Effect of Relational Governance on Firm Performance of West Australian Family Business

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Informed Consent to Participate

I (the participant) have read the information provided and any questions I have asked have been answered to my satisfaction. I agree to participate in this activity, realising that I may withdraw at any time without reason and without prejudice.

I understand that all information provided is treated as strictly confidential and will not be released by the investigator. The only exception to this principle of confidentiality is if a court subpoenas documentation. I have been advised as to what data is being collected, what the purpose is, and what will be done with the data upon completion of the research.

I agree that research data gathered for the study may be published provided my name or other identifying information is not used.

Do you agree to the interview being voice-recorded? Yes No (please circle)

Participant

Date

The Human Research Ethics Committee at the University of Western Australia requires that all participants are informed that, if they have any complaint regarding the manner, in which a research project is conducted, it may be given to the researcher or, alternatively to the Secretary, Human Research Ethics Committee, Registrar’s Office, University of Western Australia, 35, Stirling Highway, Crawley, WA 6009 (telephone number 6488-3703). All study participants will be provided with a copy of the Information Sheet and Consent Form for their personal records.
Appendix 4
Interview Schedule (Phase 1 Study)

Section A: “Family Business” – Family and Business

1. Please provide a brief description & history of your family business including details such as: Family culture, values, vision, mission statement, founder influence

2. When and how the business became a family business, and how family is included in the business

3. Guiding principle for the family business: what is best for the family or what is best for the business?

Section B: Relational Governance

Structural - Family Institution, Family Size & Social Interaction

1. (Family institution-social interaction) is there a mechanism to ensure that all family members have a say in the running of the business e.g. a family council?

2. (Family institution-social interaction): Do you hold family meetings (or other processes) to facilitate discussion/resolution of challenging issues?

3. (Family Institutions): Family members in managerial positions (Documented policies for entry into and exit from the business)

4. (Family Size – Social Interaction): Identify the person (s)/groups/family unit participated in formulating important business strategies and making key strategic decisions (e.g. sell off the business but remain control)

5. (Social Interaction): How would you describe the interpersonal relationships/social ties/social relations among family members within the family ownership group?

6. How close are the family members within the family management unit?

7. How often do they meet up or visit each other?

8. Do they usually contact with each other for social purpose, or business purpose, or both?

9. Does the family size (i.e. numbers of family members who are owners-managers or merely shareholders within the family ownership group) affect the frequency of meetings?

10. (Social Interaction): what is the role of trust among family-owners and managers within the family owner’s group?
Social Interaction and Shared vision

1. (Social interaction-shared vision) - Can you see any differences between family firms and non-family firms about building up personal business contacts and networks?

2. (Shared Vision): Describe any shared vision among members from the family management unit.

3. (Shared Vision 2): (A probing question, depending on the answers from the respondent) – are there any resources, capabilities, ideas or mindsets that you think your firm must develop in order to create sustainable long-term value for the firm?

4. (Shared vision) what resources and capabilities do your firm and your family ownership group have in order to sustain long term wealth or value creation?

5. (Shared vision – decision commitment) Are there any resources you need to pick or capabilities you need to build for your firm’s long-run value creation?

6. Shared Vision 3 – identifying whether a family owner’s group has a family-in-business mindset): Do you think of yourself as a particular type of family (e.g. a manufacturing family)?

7. (Shared vision 4) Do you have a mission or priority to pass on the business from one generation to the next no matter what happens in the market?

8. (Shared vision 5 focusing on Entrepreneurial Orientation and family-as-investor) How do you manage and measure performance? How does the performance measurement fit into your long-term business strategies? What assets are required to meet the return expectations of the shareholders (including the family owners themselves)?

Section C: Relational Governance, Decision & Business Performance

1. Identify the person(s)/groups/family unit participated in making strategic decisions.

2. (Shared vision-Decision commitment and quality): Under what circumstance do you and other family owners (from the owner-family) forge a shared view of the goals and objectives about the firm’s future direction? (E.g. family meetings)

3. (Shared vision - Decision Quality): As a manager-owner, how would you describe your job scope? Please describe the division of work among members in the family ownership group.

4. (Shared vision – Decision Commitment) Describe how important business decisions are usually made (by the family ownership group holding top managerial roles)

5. Identify factors that affect our decision making.

6. Describe your greatest challenges as a family firm & what steps you are taking to meet them.

7. Do you have a written business or strategic plan? Explain how this was developed.

8. Do you use non-family directors and/or other professional resources including external advisers?
9. Does the family have a family code, or other governance process to guide their relationships & behavior in the business?

Appendix 5
Survey Questionnaire

September 2008

Dear Sir/Madam,

**Project Title**: The Effect of Relational Governance on the Sustainability of Australian Family Firm

My name is Donella Caspersz and I am a lecturer at the UWA Business School of the University of Western Australia. I am the supervisor of Mr. Jeffrey Lou, who is completing his PhD at the UWA Business School.

We are conducting a survey among Australian family firm managers to understand family firm governance and its effects on long-term business performance. On the Australian economic landscape, family and privately-owned businesses represent 97% of business nation-wide (The MGI Group 2006), and have contributed to economic success and prosperity of Australia over the years.

The objectives of the study are to:

1. Identify factors influencing management in Australian family business;
2. Investigate the governance practices of family business and its effect on strategic decision making;
3. Assess the impact of family firm governance on long term business performance;
4. Examine how the business environment and organisational life cycle affect decision making by managers.

We are writing to ask you to participate in this research. Your contribution is invaluable in leading to a better understanding of governance and firm sustainability in Australian family business.

This survey will take no more than 20-25 minutes of your time. Any Australian companies or organisations do not sponsor the research. The questionnaires will be destroyed 5 years after the completion of the project. Please rest assured that your responses will remain confidential. However, we are seeking your permission to report on the information collected in an aggregated format. Access to data is restricted to the researcher ONLY and no individual or organization will be named.

Should you have any queries about this study, please do not hesitate to telephone 6488 2927, 6488 2934 or fax 6488 1055. Thank you for your cooperation.

Yours Sincerely,

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Donella Caspersz  
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The Effect of Relational Governance on the Performance of Australian Family Firm

1) Is your firm a family business?
(Family business is defined as one or more families linked by kinship and which hold a large proportion of ownership/equity shares to make important strategic decisions. The family/families shape the firm’s vision and affect firm performance.)

1 Yes  2 No  (Please tick the appropriate box)

Part 1 - Personal data (Please tick the appropriate box)

1) You are:

1 A family owner-manager of the firm  2 A non-family manager of the firm
3 A family manager but not owner of the firm  4 Others _______________________

2) What is your personal title in this family firm?

1 Owner-Manager  2 CEO  3 Managing Director
4 Sales Manager  5 Others _______________

3) What is your age?

1 20-30 years old  2 31-40 years old  3 41-50 years old
4 51-60 years old  5 More than 60 years old

4) How long have you been involved in this family firm?

1 Less than one year  2 1-5 years  3 6-10 years
4 11-15 years  5 More than 15 years

Part 2 - General Information of the Company & the Top Management Team
(Please tick the appropriate box)

1) Please state the year the firm was founded: ______________

2) Numbers of full-time employees in the company:

1 1-4 employees  2 5-19 employees  3 20-49 employees
4 50-199 employees  5 200 employees or more

3) What industry are you currently in? (You can choose more than 1 industry sector)

1 Agribusiness  2 Apparel/Textiles  3 Automotive/Trucks
4 Banking/Financial  5 Consumer Durables  6 Distribution/Wholesale
7 Education Services  8 Food/Beverage  9 Insurance
10 Mining/Resources  11 Telecommunication  12 Others _______________________

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4) If you are a family member holding managerial positions (e.g. CEO, managing director) of the family firm, are you personally involved in the business as:
   (E.g. If the family firm was founded by grandparents and you as grandchildren are currently working for the family firm, you will be considered as the 3rd generation)

   1 1st generation
   4 4th generation
   2 2nd generation
   5 More than 4th generation
   3 3rd generation

5) Since being founded, the family firm is now in the:
   (E.g. If the family firm was founded by grandparents and you as grandchildren are currently working for the family firm, the family firm will then be considered as the 3rd generation)

   1 1st generation
   4 4th generation
   2 2nd generation
   5 More than 4th generation
   3 3rd generation

6) How many generations of family member are currently holding managerial positions (e.g. CEO, managing director) and currently managing the business? (E.g. if both parents and children as top managers are currently managing the family firm, then your answer would then be ‘2 generations’)

   1 1 generation
   2 2 generations
   3 More than 2 generations

7) What percentage of growth has the company had over the past three years? (If applicable)

   1 0-24%
   4 75-100%
   2 25-49%
   5 Others __________
   3 50-74%

8) The ownership of our business is:

   1 Family-owned and managed
   2 Non-family-owned but managed by family
   3 Family-owned but not managed

9) The owning-family currently holds:

   1 0-25% ownership (equity share)
   3 51-75% ownership (equity share)
   2 26-50% ownership (equity share)
   4 76-100% ownership (equity share)

10) Please indicate the total number of people in the TOP management team (i.e. managers who regularly participate in making important strategic business decisions):

11) In the top management team, how many people are:

    | Items                           | Total Numbers (please specify) |
    |---------------------------------|-------------------------------|
    | Share-owning family managers    |                               |
    | Family managers with no ownership |                               |
    | Non-family managers             |                               |

12) At the moment, our business:

   1 Has a Board of Directors
   2 Does not have a Board of Directors

13) If your firm has a Board of Directors, please indicate the total number of directors in the Board:

   __________
14) Please indicate any reason(s) why your business has or does not have a Board of Directors:

15) If your business has a Board, please indicate the numbers of directors who are NOT family members:

- 1
- 2: 1-2
- 3: 3-4
- 4: 5 or above

16) At this moment, your firm has (Please tick the appropriate box):

<table>
<thead>
<tr>
<th>Items</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. A documented succession plan (i.e. addressing the issues of both management and ownership transition)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ii. A documented estate plan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>iii. The Shareholder’s Agreement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>iv. A chosen potential successor who are family member</td>
<td></td>
<td></td>
</tr>
<tr>
<td>v. A chosen potential successor who are non-family member</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

17) If you do not have a potential family successor, please indicate to what extent you agree or disagree with the following statements:

<table>
<thead>
<tr>
<th>Reasons for no potential family successor</th>
<th>Strongly Disagree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. Personality clashes between generations</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>ii. Poor relations with the next generation</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>iii. Family managers from next generation complaining about the lack of autonomy in the firm</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>iv. Choosing a successor is not a relevant issue until the current owner-manager/CEO is close to his/her retirement</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>v. Next generation not satisfied with the salary level</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>vi. Next generation not interested in the industry</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>vii. Unclear career development from the next generation’s viewpoint</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>viii. Different business goals between parent and children</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>

If there are any reasons not identified from above, please specify:

18) At this moment, our firm has (please tick the appropriate box):

<table>
<thead>
<tr>
<th>Items</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provided training to family-member as potential successor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provided vocational employment to family member as potential successor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The potential successor to sit in on board</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provided mentoring program to family member as potential successor</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
19) As family member and key decision makers in the TOP management team, please indicate the extent to which you agree or disagree with the following statement:

<table>
<thead>
<tr>
<th>The Top Management Team</th>
<th>Strongly Disagree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. Employment opportunity is always open to family members unconditionally</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>ii. Family members are not required to have relevant skills/knowledge to fill in a job</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>iii. We consider hiring non-family managers/professionals ONLY when family members do not have the required skills/industry knowledge etc.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>iv. We think that establishing a Board of Directors is important to the long-term survival and growth of family firm</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>v. The Board is unnecessary to us because it constraints family control to the firm</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>vi. The Board is irrelevant to us because of the company size</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>vii. Only large public corporations require the Board of Directors</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>viii. Owner-manager has strong personal networks with clients</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>ix. We have non-family managers to actively and regularly participate in making important business decisions</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>x. We have non-family managers with required industry knowledge, professionalism etc.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>

Part 3: Family Business Practices

1) As family members and key decision makers in the TOP management team, please indicate the extent to which you agree or disagree with the following statements:

<table>
<thead>
<tr>
<th>Business Practices</th>
<th>Strongly Disagree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. The family very often (i.e. daily) uses informal family meetings (e.g. dinner, informal get-together) to discuss and resolve business matters</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>ii. The family very often (i.e. daily) uses formal family meetings (e.g. boardroom meetings with documented agenda and minutes) to discuss and resolve business matters</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>iii. The family very often (i.e. daily) uses family council to discuss and resolve business matters</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Social Interaction</th>
<th>Strongly Disagree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. We have strong mutual trust among family members</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>ii. There is a strong mutual trust between us as family members and other non-family managers/professionals</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>iii. We give priority to family issues over business issues</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>iv. We maintain close social relations with each other</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>v. We know each other on personal level</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>vi. We visit or see each other almost every day</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>vii. We work together almost every day</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>viii. When we get together we usually talk about business issues</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>ix. We find it difficult to separate family issues with</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>
2) As family members and key decision makers in the TOP management team, please indicate the extent to which you agree or disagree with the following statements:

<table>
<thead>
<tr>
<th>Shared Vision</th>
<th>Strongly Disagree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. We share the same vision about our company’s goal</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>ii. We agree with pursuing stable and risk-averse strategies</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>iii. We commit ourselves to our company’s long term goals</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>iv. Our dominant goal/priority now is on business growth</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>v. We agree about the long-term development objectives of the firm</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>vi. We agree that succession planning is important, because it relates to the long-term survival of the firm</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>vii. We see succession planning as a process, rather than an event</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>viii. We communicate very openly among ourselves</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>ix. Succession planning is important only when the current CEO/owner-manager is close to his/her retirement</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>x. We see our business as just a way to earn a living</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>xi. We see our business as a way to earn living and also a way to achieve self-fulfilment</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>xii. We see our business as a way to not only earn a living but also retain a strong sense of our family values</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>xiii. We agree that important business decisions should be made by gut-feel and experience</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>xiv. We agree that important business decisions should have the support from top managers as team</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>

3) As family members and key business decisions in the TOP management team, please indicate the extent to which you agree or disagree with the following statements:

<table>
<thead>
<tr>
<th>Strategic Decision Making</th>
<th>Strongly Disagree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. Our strategic decisions help achieve our goals and objectives</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>ii. The family firm’s vision and values always reflect on our strategic decisions</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>iii. Strategies are always driven by the founder/owner-manager’s vision</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>iv. Our strategies are always consistent with our shared vision</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>v. We have strong commitment to, and hold each other responsible for decisions that we have made</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>vi. Succession planning is part of our business strategy</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>vii. We allocate time and resources on succession plan</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>viii. The CEO/manager-owner always makes the final decision before business action is taken</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>ix. The CEO always has the final say in policy-level decision, without necessarily consulting others in the team</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>x. Final decisions must be discussed with other top managers before action is taken</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>xi. Final decisions must be made by the majority of vote before business action is taken</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>xii. The business has a formal structure where family</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>
and business matters can be discussed

<table>
<thead>
<tr>
<th>Strategic Planning</th>
<th>Strongly Disagree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>xi. Our business has a clear long-term vision</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>iv. Important strategies are always driven by the founder’s or owner-manager’s vision</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>xii. The business has a formal document that describes the relationship between the family and the business</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>xiii. We have a clearly written family code</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>xiv. We have a clearly written business long-term strategic plan</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>xv. We have assistance from professional advisers in relation to succession plan</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>xvi. Our strategies are always driven by the need to change, innovate and increase our market share</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>xvii. The long-term strategies of our business are planned long in advance</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Making Decisions</th>
<th>Strongly Disagree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>viii. One of our decision strategies is to wait and see what happens in the market</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>xix. We conduct careful market analysis before action is taken</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>xx. We use a formal strategic planning process in place (i.e. define the problem, brainstorm, create and select alternatives, implement and evaluate performance)</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>xxi. We develop a range of alternative strategies</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>xii. We control the strategic focus of the family’s joint interests</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>xiii. Intuition/gut feel always guides us through when making important business decisions</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>xiv. We tend to take conservative, safe approach when making important business decisions</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Respond to Business Environment</th>
<th>Strongly Disagree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>xxv. We frequently gather feedback from clients</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>xxvi. We explicitly track policies/tactics of competitors</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>xxvii. We forecast our performance (e.g. sales, customer preferences, technology etc.)</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>xxviii. We have formalised, systematic search for opportunities about acquisitions, new investments etc.</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>xxix. We put substantial amounts of thoughts and analysis into key decisions</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>xxx. We always use gut-feel to choose our strategies, because time pressure are often substantial</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>xxxi. There is a bird-in-the-hand emphasis on the immediate future in making management decisions</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>
4) What is/are the major business activities your company currently focusing on? Please indicate the extent to which you focus on the following business activities:

<table>
<thead>
<tr>
<th>Recent Business Activities</th>
<th>Of no focus</th>
<th>Of Utmost focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>xxxii. Securing our resources</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>xxxiii. Forecasting and obtaining market acceptance</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>xxxiv. Making adjustments for our previous marketing strategies</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>xxxv. Making great efforts to become the market leader over strong competition</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>xxxvi. Striving to identify our market niche because of strong competition</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>xxxvii. Striving to develop a competitive edge against competitors</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>xxxviii. Having difficulties to introduce innovative products/service to the market</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>

**Part 4: Business Performance and Firm Sustainability**

1) What is/are the MOST important factor(s) contributing to your family business GROWTH over the past 3 years? Please indicate the level of importance of the following items:

<table>
<thead>
<tr>
<th>GROWTH of Family Business</th>
<th>Of No Importance</th>
<th>Of Utmost Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. Merging &amp; Acquisition</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>ii. Product/Service Sales</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>iii. Good reputation of our products/services in the market</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>iv. Equipment Upgrades, therefore improving efficiency</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>v. Adequate Information about the market</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>vi. Adequate Information about the competitors</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>vii. CEO/Owner-manager’s strong personal relationships and network with our suppliers</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>viii. CEO/Owner-manager’s strong personal relationships and network with our customers</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>ix. Employees’ strong commitment to achieve business goals</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>x. Staff with relevant expertise and knowledge</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>xi. Staff with high productivity</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>xii. Staff contributing innovative ideas to products/service</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
<tr>
<td>xiii. Staff capable of marketing our products/services well</td>
<td>1 2 3 4 5</td>
<td></td>
</tr>
</tbody>
</table>
2) To ensure long-term business survival and growth of the family firm, please indicate the extent to which you agree or disagree with the following statements:

<table>
<thead>
<tr>
<th>Succession planning</th>
<th>Strongly Disagree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>v. It is important to have a documented succession plan</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>vi. It is important to have a documented estate plan</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>vii. We have family members of younger generations involved actively in succession planning</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>viii. The current family member CEO will retire in the next 5-10 years</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>ix. Gender is an issue to consider when choosing a potential successor</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

3) Please indicate the average business profit of your business over the past 3 years?

$AUD ______________________________ (A rounded-up figure will be acceptable)

4) Please compare the performance of your firm over the past 3 years relative to your two most important competitors regarding the following business performance measures:

<table>
<thead>
<tr>
<th>Business Performance over the past 3 years against two most important competitors</th>
<th>Much worse</th>
<th>Much Better</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. Sales growth</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>ii. Revenue growth</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>iii. Net profit margin</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>iv. Product/service innovation</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>v. Adoption for new technology</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>vi. Product/service quality</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>vii. Product/service variety</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>viii. Customer satisfaction</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

5) As key decision makers in the TOP management team, please indicate the extent to which you agree or disagree with the following statements regarding the business environment:

<table>
<thead>
<tr>
<th>Business Environment</th>
<th>Strongly Disagree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. Our business environment is unpredictable and competitive</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>ii. Our business environment is stable</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>iii. Demands and consumer tastes are fairly easy to forecast</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>iv. The production/service technology is often subject to change in the environment</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>v. The environment causes a great threat to the survival of our firm</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>vi. Tough price competition is a great threat to us</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>vii. Competition in product quality or novelty is a great threat to us</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>viii. Government interference is a great threat to us</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>ix. Scarce supply of labour/material is a great threat to us</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>x. Our current business focus is to differentiate our product in the market</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>xi. We do not have any new lines of products or services in past 5 years</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>xii. We have a very strong emphasis on Research</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>
6) What is the priority of your business goal recently? Please indicate the level of priority of the following items:

<table>
<thead>
<tr>
<th>Business Priority</th>
<th>Of no priority</th>
<th>Of utmost priority</th>
</tr>
</thead>
<tbody>
<tr>
<td>xiii. Develop product marketing strategies</td>
<td>1</td>
<td>2 3 4 5</td>
</tr>
<tr>
<td>xiv. Monitor our competitors’ strategies</td>
<td>1</td>
<td>2 3 4 5</td>
</tr>
<tr>
<td>xv. Develop a more formalised control system on cost</td>
<td>1</td>
<td>2 3 4 5</td>
</tr>
<tr>
<td>xvi. Develop a clearer management structure (e.g. who is responsible for what, who should report to whom etc.)</td>
<td>1</td>
<td>2 3 4 5</td>
</tr>
<tr>
<td>xvii. Stabilise our market position</td>
<td>1</td>
<td>2 3 4 5</td>
</tr>
<tr>
<td>xviii. Expand the existing markets</td>
<td>1</td>
<td>2 3 4 5</td>
</tr>
</tbody>
</table>

Thanks you for your assistance in completing this survey!
Please send the survey back with the reply-paid envelope.
Appendix 6
Pre-Interview Questionnaire Survey
(Phase 3 Case Study)

The Effect of Relational Governance on Firm Performance of West Australian Family Business

Jeffrey Lou
UWA Business School

August 2009
CASE STUDY – PRE-INTERVIEW QUESTIONS

Part 1 - Personal data (Please tick the appropriate box)

1) You are:
   1) A family owner-manager of the firm
   2) A non-family manager of the firm
   3) A family manager but not owner of the firm
   4) Others ______________________________

1) What is your personal title in the firm?
   1) Owner-Manager 2) CEO 3) Managing Director
   4) Sales Manager 5) Others ______________

3) What is your age? ______________

4) How long have you been involved in the firm?
   1) Less than one year
   2) 1-5 years
   3) 6-10 years
   4) 11-15 years
   5) More than 15 years

Part 2 - General Information of the Firm & the Top Management Team (Please tick the appropriate box)

1) Please state the year the firm was founded: ____________________________

2) Numbers of full-time employees in the firm:
   1) 1-4 employees
   2) 5-19 employees
   3) 20-49 employees
   4) 50-199 employees
   5) 200 employees or more

3) In which industry is your firm mainly engaged? (Please tick ONE option only)

   1) Agriculture, Forestry, Fishing
   2) Mining
   3) Manufacturing
   4) Electricity, Gas and Water Supply
   5) Construction
   6) Wholesale trade
   7) Retail
   8) Accommodation, Cafes & Restaurant
   9) Transport and Storage
   10) Communications
   11) Finance and Insurance
   12) Property and Business Services
   13) Education
   14) Health and Community Services
   15) Cultural and Recreational Services
   16) Personal Services and Other Services
   17) Other (Please state)_____________________________________

4) What percentage of growth has the firm had over the past three years? (If applicable)
   1) 0-24%
   2) 25-49%
   3) 50-74%
   4) 75-100%
   5) Others __________________

5) The ownership of our business is:

   1) Family-owned and managed
   2) Family-owned but not managed by family
   3) Non-family-owned but managed by family
   4) NOT family-owned and NOT family-managed
6) Please indicate the total number of people in the TOP management team (i.e. managers who regularly participate in making important strategic business decisions): _______________________

7) In the top management team, how many people are:

<table>
<thead>
<tr>
<th>Items</th>
<th>Numbers (please specify)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share-owning family managers</td>
<td></td>
</tr>
<tr>
<td>Family managers with no ownership</td>
<td></td>
</tr>
<tr>
<td>Non-family managers</td>
<td></td>
</tr>
</tbody>
</table>

8) At the moment, our business:

1) Has a board of directors  2) Does not have a board of directors

9) If your firm has a board of directors, please indicate the total number of directors in a board:

____________________

10) In your board of directors, how many people are:

<table>
<thead>
<tr>
<th>Items</th>
<th>Numbers (please specify)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family members</td>
<td></td>
</tr>
<tr>
<td>Non-family members</td>
<td></td>
</tr>
</tbody>
</table>

11) Please indicate any reason(s) why your business has or does not have a board of directors:

__________________________________________________________________________

__________________________________________________________________________
Appendix 7
Information Sheet (Phase 3 Case Study)

August 2009

Dear Sir/Madam,

Project Title: The Effect of Governance Practices on Firm Performance of West Australian Family Business

My name is Donella Caspersz and I am a lecturer at the Business School of the University of Western Australia (UWA). I am the supervisor of Mr. Jeffrey Lou, who is completing his PhD at the UWA Business School.

We conducted a survey among West Australian family business managers to understand firm governance and its effects on long-term business performance last October. Our survey results have unveiled the many facets of business dynamics and how managers strive to access and allocate resources to meet the evolving needs of their volatile business environment (Please see attached for details).

However, the story of family business will not be complete if we overlook the social dynamics of governance within a given socio-economic context. Based on the extant literature and our preliminary survey results, we will conduct a series of case studies by applying the conceptual lens of social capital and embeddedness, examine the impact of the manager’s social relations (e.g. relational trust) on managerial performance, and review business operations in relation to long-term value creation and strategic adaption.

The objectives of the case study interview are therefore to:

1. Identify factors influencing management in West Australian family business;
2. Investigate the governance practices of West Australian family business and its effect on strategic decision making;
3. Assess the impact of relational governance on long-term business performance;
4. Examine how the business environment and development stage affect decision making by managers.

We are writing to ask you to participate in this research. Your contribution is invaluable in leading to a better understanding of governance and firm performance in West Australian family business. This interview is anonymous and will take approximately one and a half hour of your time. Your response will be kept confidential and used only for this research project. Access to data is restricted to the researcher ONLY and no individual or organization will be named.

Should you have any queries about this study, please do not hesitate to telephone 6488 2927, 6488 2934 or fax 6488 1055. Thank you for your co-operation.

Yours Sincerely,

Donella Caspersz
Lecturer
UWA Business School
Tel: 6488 2927
Email: dcasperz@biz.uwa.edu.au

Jeffrey Lou
PhD Student
UWA Business School
Mobile: 0401 963 438
Email: jlou@biz.uwa.edu.au
Highlights of Our Survey Findings

SD - Strongly Disagree; D - Disagree; N – Neither Agree nor Disagree; A – Agree; SA – Strongly Agree

About the Self-image of Family Business

<table>
<thead>
<tr>
<th>Survey Questions</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managers see their business as JUST a way to earn a living</td>
<td>68.3%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managers see their business as a way to earn a living (business) and retain family values (family)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>69.7%</td>
</tr>
<tr>
<td>Managers see their business as a way to earn a living and self-fulfilment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>81.7%</td>
</tr>
<tr>
<td>Family members are not required to have relevant knowledge/skill to fill a job</td>
<td>68.5%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Priority would be given to family issues over business issues</td>
<td>28.4%</td>
<td>30%</td>
<td></td>
<td></td>
<td>33.9%</td>
</tr>
<tr>
<td>Managers always find it difficult to separate family issues with business issues</td>
<td>50.7%</td>
<td></td>
<td></td>
<td></td>
<td>2.7%</td>
</tr>
</tbody>
</table>

Factors Influencing Business Performance

The survey findings also highlight the following issues:

- Good reputation of products/service in the market is the most important factor contributing to business growth; the focus of innovation, variety of product/service and adoption of new technology are positive to business outcomes;

- Most family businesses identified business environment as highly unpredictable and competitive, and indicated the importance of differentiating their products/services from competitors as the current business focus.

- To remain competitive, most businesses agree that generating feedback frequently from clients/customers has its utmost importance, followed by the need to put a substantial amount of thoughts and analysis into key strategic decisions.

- The survey results showed that the level of mutual trust and social interaction (e.g. open communication) between family members leads to the level of their commitment to achieve long-term business goals.

However, two important aspects of governance need to be explored further by interview. For example:

1. How can family business fully utilize its competitive advantages, including the use of its social capital (e.g. trust, relationships with business partners, suppliers) to enhance business performance?

2. How does family business understand its operating business environment? Is there any competitive advantage family business has, and if yes, how do family firms respond to the unpredictable business environment?
Appendix 8
Consent Form (Phase 3 Case Study)

CONSENT FORM

The Effect of Relational Governance on Firm Performance of West Australian Family Business

Researcher
Tak Man Jeffrey Lou
0401 963 438
jlou@biz.uwa.edu.au

Supervisors
Dr. Donella Caspersz
Ass. Professor Rob Lambert
UWA Business School
6488 2927
6488 2934
dcasperz@biz.uwa.edu.au
rlambert@biz.uwa.edu.au

Informed Consent to Participate

I (the participant) have read the information provided and any questions I have asked have been answered to my satisfaction. I agree to participate in this activity, realizing that I may withdraw at any time without reason and without prejudice.

I understand that all information provided is treated as strictly confidential and will not be released by the investigator. The only exception to this principle of confidentiality is if a court subpoenas documentation. I have been advised as to what data is being collected, what the purpose is, and what will be done with the data upon completion of the research.

I agree that research data gathered for the study may be published provided my name or other identifying information is not used.

Do you agree to the interview being voice-recorded? Yes No (please circle)

Participant
Date

The Human Research Ethics Committee at the University of Western Australia requires that all participants are informed that, if they have any complaint regarding the manner, in which a research project is conducted, it may be given to the researcher or, alternatively to the Secretary, Human Research Ethics Committee, Registrar’s Office, University of Western Australia, 35, Stirling Highway, Crawley, WA 6009 (telephone number 6488-3703). All study participants will be provided with a copy of the Information Sheet and Consent Form for their personal records.
Appendix 9
Interview Schedule (Phase 3 Case Study)

Regarding documentation:
- Keep minutes for meeting?
- Any documents recorded the history of the firm?
- Structure – who is responsible for what

Section A: General Questions – Business as „Family Business“

1. To you, what is a family business?

2. How to develop family commitment to business?

3. Do you think family business differs from non-family business? (if yes in what ways?)

4. How do you understand and learn about your company as family business? (E.g. through family stories, history?)

5. Is there any specific identity or value associated with your family business?

6. Can you give an example of what you mean by acting ethically?

Section B: “Family Business” – Family and Business

1. Have you ever come up with difficulties to balance family wants and business needs? If yes, under what circumstances?

2. Who are the key decision makers of the firm? How would you describe your relationships with them?

3. What is your opinion about the relationships with key family members involved in the firm?

4. When it comes to make business decisions, does conflict emerge? How do you cope with that? Does it affect the relationships with family members?

5. Is employment opportunity always open to family members unconditionally? If not, what are the criteria of family members to be employed?
Succession

1. Have you decided a successor at this time? If yes, do you agree that you share the same views, beliefs and values of the business present and future?

2. How significant/important is succession planning to you and your business at this time?

3. Do you intend the business to remain ‘in the family’?

Section C: Relational Governance & Social Capital

Shared Values & Social Interaction

1. Do you agree that you and other managers often share the same values related to business?

2. When communicating openly how does it help the team to share values across?

3. Do you think everyone in the team is encouraged to voice out their views and opinions, or whether the openness to communicate only applies to managers?

4. Does everyone in the top management team know each other on the personal level? All close to each other?

5. How often do you meet up with key decision makers? If meeting frequently how does it help to create a closer interaction with managers?

Family Institutions

1. Do you have a formal document (e.g. family code, code of conduct) which describes the relationship between family and business? And what are the issues covered in the document?

2. Is there a formal structure where family and business matters can be discussed? (Related to structural and relational embeddedness)

3. Do you usually use formal meeting or informal meetings or both to discuss business matters?

4. Do you have two management teams? (e.g. one is board and another as governance body for day-to-day business matters)

5. Under what circumstances do you choose informal/formal/board meetings for important business discussion?
Section D: Exploratory Issues – Social Embeddedness (Structural & Relational), Family Business Governance and the Ability of Family Firms to Achieve their Economic and Noneconomic Goals

Relational Embeddedness (Relational Trust)

1. How do you describe the trust among key family decision makers?

2. How important is trust to the family and business?

3. How do you develop trust between yourself and other key managers (family and/or non-family)?

4. How does the level of trust affect the long-term commitment to important business strategies?

5. How do you describe the relationship with your major customers/business partners/suppliers? How would you describe the trust between yourself and your major business partners/clients? (relational embeddedness – how well they know -)

6. When you trust a person, do you trust in his/her competence or in intentions (you have good faith to him/her and requires someone’s commitment and to stay away from opportunistic behaviour)?

7. Is there a limit of trust? Do you trust a manager or business stakeholder because s/he is reliable (control inclusive)? Trustworthy? (Beyond control) or both?

8. Do you think trust is more based on the firm/people/both?

9. Do you think the trust/good relationship can be transferred from one generation to the next? (e.g. father has good relationships and trust with clients but not necessarily the kids?)

10. How do you develop trust with your clients/business partners? (E.g you trust someone because of pressures of survival

11. To what extent do you think trust and good relationship contribute to business performance?

12. How do you maintain the relationship with clients?

13. How many years have you personally known your major business partners?

14. How long have you work with the business partners? (years)

Structural Embeddedness

1. Please identify key business partners, suppliers or clients if applicable. (Structural embeddedness – whom they know)
2. Have you established any networks with them? Do you personally know them? (if yes, how long?)

3. Is there anything that can affect the business relationship with major stakeholders? (e.g. economic benefits received from the relationship; confidence and belief in the counterpart – social bond; business networks (informational support), market diversity and volatility (concerns with opportunism)

4. When facing business challenges, do you think your personal relationship with key clients/suppliers plays a role? If yes, how and to what extent such relationships help the company survive or even grow?

5. Do you think a good relationship with clients on the personal level helps the company to outperform competitors? If yes, in what ways?

6. Do you prepare any formal contract with your business partner? If yes, how do you develop it? Do you customize it? Does it require considerable legal work?

7. Do you think the image of family business help you to build up trust with customers/suppliers?

(Network closure, strong/weak ties)

8. How important is innovation to your company’s products and service?

9. As manager, are there any methods or strategies to ensure that novelty and new ideas will not be discouraged in decision-making?

10. Do you think a closed network with good relationships makes each other more responsible for their decisions?

11. Do you see any advantages and disadvantages of a closed network when it comes to new ideas or innovation?

(Customer satisfaction)

12. Are there any methods/strategies to maintain or even increase customer satisfaction with products/service?

13. Do you need to build up and maintain good relationships with your business partners/clients on the personal level?

Section E: Exploratory Issues: Economic and Institutional Embeddedness

Responding to Business Environment

1. How would you describe your business environment?

2. Are there any factors that threaten the company’s survival directly over the past 3 years?
3. Are there any factors that create new opportunities for the company over the past 3 years?

4. In general are there any strategies to respond to your business environment? (e.g. frequently gather feedback)

5. Did the financial crisis affect business performance? if yes, how?

6. How do you and your management team make decisions when facing business challenges?

7. Please identify some major business activities recently (E.g. making tremendous efforts to develop competitive edge against rivalries; identify the market niche, securing resources, introduce innovative products, forecasting market acceptance)

Section F: The Ability of Family Firms to Achieve their Economic and Noneconomic Goals

**Decisions**

1. To you, what makes a good business decision?

2. To you, how can a manager build up people commitment to important business? Business decisions?

3. How do you describe the atmosphere when making business discussion?

4. How do you make decisions when facing the changes in the business environment?

**Business Growth**

1. What business activities contribute to business growth over the past 3 years?

2. As manager, how do you make your company stay competitive?

3. What’s the drive to good business performance? (CEO, staff, teamwork, encourage ideas during the decision making process, open communication etc.)
## Appendix 10 – Descriptive Finding – Survey Questionnaire (Phase 2)

### Table A: Personal Data of the Participating Respondents

<table>
<thead>
<tr>
<th>Items</th>
<th>Frequency</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Surveyed firms from:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FBAWA</td>
<td>17</td>
<td>32.7%</td>
</tr>
<tr>
<td>SBDC</td>
<td>35</td>
<td>67.3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>52</strong></td>
<td><strong>100%</strong></td>
</tr>
<tr>
<td><strong>Survey respondents are:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A family owner-manager of the firm</td>
<td>47</td>
<td>90.4%</td>
</tr>
<tr>
<td>A family manager but not the owner of the firm</td>
<td>4</td>
<td>7.7%</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
<td>1.9%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>52</strong></td>
<td><strong>100%</strong></td>
</tr>
<tr>
<td><strong>Survey Respondents – Personal Title</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owner-Manager</td>
<td>21</td>
<td>40.4%</td>
</tr>
<tr>
<td>CEO</td>
<td>4</td>
<td>7.7%</td>
</tr>
<tr>
<td>Managing Director</td>
<td>17</td>
<td>32.7%</td>
</tr>
<tr>
<td>Others</td>
<td>10</td>
<td>19.2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>52</strong></td>
<td><strong>100%</strong></td>
</tr>
<tr>
<td><strong>Age</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20–29</td>
<td>3</td>
<td>5.8%</td>
</tr>
<tr>
<td>30–39</td>
<td>13</td>
<td>25.0%</td>
</tr>
<tr>
<td>40–49</td>
<td>15</td>
<td>28.8%</td>
</tr>
<tr>
<td>50–59</td>
<td>15</td>
<td>28.8%</td>
</tr>
<tr>
<td>60 or above</td>
<td>6</td>
<td>11.5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>52</strong></td>
<td><strong>100%</strong></td>
</tr>
<tr>
<td><strong>Years of involvement in the firm</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 1 year</td>
<td>3</td>
<td>5.8%</td>
</tr>
<tr>
<td>1–5 years</td>
<td>21</td>
<td>40.4%</td>
</tr>
<tr>
<td>6–10 years</td>
<td>8</td>
<td>15.4%</td>
</tr>
<tr>
<td>11–15 years</td>
<td>4</td>
<td>7.7%</td>
</tr>
<tr>
<td>More than 15 years</td>
<td>16</td>
<td>30.8%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>52</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
Table B: Demographics of the Family Firms

<table>
<thead>
<tr>
<th>Items</th>
<th>Frequency</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Firm being a family business</strong></td>
<td>52</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Ownership of the firm</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family-owned and managed</td>
<td>49</td>
<td>94.2%</td>
</tr>
<tr>
<td>Family-owned but not managed by family</td>
<td>3</td>
<td>5.8%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>52</td>
<td>100%</td>
</tr>
<tr>
<td><strong>The owning-family currently holds</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>26–50% ownership</td>
<td>4</td>
<td>7.7%</td>
</tr>
<tr>
<td>51–75% ownership</td>
<td>2</td>
<td>3.8%</td>
</tr>
<tr>
<td>76–99% ownership</td>
<td>4</td>
<td>7.7%</td>
</tr>
<tr>
<td>100% ownership</td>
<td>42</td>
<td>80.8%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>52</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Firm size</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1-4 employees (Micro enterprises)</td>
<td>35</td>
<td>67.3%</td>
</tr>
<tr>
<td>5-19 employees (Small enterprises)</td>
<td>7</td>
<td>13.5%</td>
</tr>
<tr>
<td>20-199 employees (Medium enterprises)</td>
<td>9</td>
<td>17.3%</td>
</tr>
<tr>
<td>200 employees or more (Large enterprises)</td>
<td>1</td>
<td>1.9%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>52</td>
<td>100%</td>
</tr>
</tbody>
</table>
Table C: Size of the Family Management Unit of the Participating Family Firms

<table>
<thead>
<tr>
<th>Items</th>
<th>Frequency</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size of the Family Management Unit</td>
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<td></td>
</tr>
<tr>
<td>2</td>
<td>15</td>
<td>28.8%</td>
</tr>
<tr>
<td>3</td>
<td>23</td>
<td>44.2%</td>
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<tr>
<td>4</td>
<td>4</td>
<td>7.7%</td>
</tr>
<tr>
<td>5</td>
<td>3</td>
<td>5.8%</td>
</tr>
<tr>
<td>6</td>
<td>3</td>
<td>5.8%</td>
</tr>
<tr>
<td>7</td>
<td>3</td>
<td>5.8%</td>
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<tr>
<td>8</td>
<td>1</td>
<td>1.9%</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>100%</td>
</tr>
</tbody>
</table>
Table D: Composition of the Family Management Unit of the Participating Family Firms

<table>
<thead>
<tr>
<th>Items</th>
<th>Frequency</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of share-owning family managers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0</td>
<td>1</td>
<td>1.9%</td>
</tr>
<tr>
<td>1</td>
<td>6</td>
<td>11.5%</td>
</tr>
<tr>
<td>2</td>
<td>38</td>
<td>73.1%</td>
</tr>
<tr>
<td>3</td>
<td>5</td>
<td>9.7%</td>
</tr>
<tr>
<td>4</td>
<td>2</td>
<td>3.8%</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>100%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>No. of family managers with no ownership</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>32</td>
<td>61.5%</td>
</tr>
<tr>
<td>1</td>
<td>14</td>
<td>26.9%</td>
</tr>
<tr>
<td>2</td>
<td>4</td>
<td>7.8%</td>
</tr>
<tr>
<td>3</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>4</td>
<td>2</td>
<td>3.8%</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>100%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>No. of non-family managers</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>39</td>
<td>75.0%</td>
</tr>
<tr>
<td>1</td>
<td>4</td>
<td>7.8%</td>
</tr>
<tr>
<td>2</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>3</td>
<td>4</td>
<td>7.8%</td>
</tr>
<tr>
<td>4</td>
<td>2</td>
<td>3.8%</td>
</tr>
<tr>
<td>5</td>
<td>2</td>
<td>3.8%</td>
</tr>
<tr>
<td>6</td>
<td>1</td>
<td>1.9%</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>100%</td>
</tr>
</tbody>
</table>
Table E: Succession Plan of the Family Firms

<table>
<thead>
<tr>
<th>Items</th>
<th>Frequency</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>A chosen potential family successor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>19</td>
<td>36.5%</td>
</tr>
<tr>
<td>No</td>
<td>33</td>
<td>63.5%</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>100%</td>
</tr>
<tr>
<td>Training provided to successor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>13</td>
<td>68.4%</td>
</tr>
<tr>
<td>No</td>
<td>6</td>
<td>31.6%</td>
</tr>
<tr>
<td>Total</td>
<td>19</td>
<td>100%</td>
</tr>
<tr>
<td>Provided vocation employment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>17</td>
<td>89.5%</td>
</tr>
<tr>
<td>No</td>
<td>2</td>
<td>10.5%</td>
</tr>
<tr>
<td>Total</td>
<td>19</td>
<td>100%</td>
</tr>
</tbody>
</table>

Documented Plans of the Family Firms

<table>
<thead>
<tr>
<th>Items</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Documented succession plan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>15</td>
<td>28.8%</td>
</tr>
<tr>
<td>No</td>
<td>37</td>
<td>71.2%</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>100%</td>
</tr>
<tr>
<td>Documented Estate Plan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>20</td>
<td>38.5%</td>
</tr>
<tr>
<td>No</td>
<td>32</td>
<td>61.5%</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>100%</td>
</tr>
</tbody>
</table>
Table F: Feedback on Formal Governance of the Family Firms

<table>
<thead>
<tr>
<th>Issues with Formal Governance</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neither Agree or Disagree</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishing a board is important to the long-term survival/growth</td>
<td>8 (15.4%)</td>
<td>10 (19.2%)</td>
<td>14 (26.9%)</td>
<td>11 (21.2%)</td>
<td>9 (17.3%)</td>
</tr>
<tr>
<td>A board is unnecessary due to constraining owner-manager’s control</td>
<td>12 (23.1%)</td>
<td>10 (19.2%)</td>
<td>8 (15.4%)</td>
<td>13 (25%)</td>
<td>9 (17.3%)</td>
</tr>
<tr>
<td>A board is irrelevant to firm size</td>
<td>25 (48.1%)</td>
<td>6 (11.5%)</td>
<td>11 (21.2%)</td>
<td>5 (9.6%)</td>
<td>5 (9.6%)</td>
</tr>
<tr>
<td>Only a large public corporation requires a board</td>
<td>7 (13.5%)</td>
<td>9 (17.3%)</td>
<td>11 (21.2%)</td>
<td>9 (17.3%)</td>
<td>16 (30.7%)</td>
</tr>
<tr>
<td>Our owner-manager/CEO has strong personal networks with clients</td>
<td>23 (44.3%)</td>
<td>19 (36.5%)</td>
<td>7 (13.5%)</td>
<td>2 (3.8%)</td>
<td>1 (1.9%)</td>
</tr>
</tbody>
</table>

NB: all questions respondents total: n = 52; response rate = 100%
Table G: Feedback on Board of the Family Firms

<table>
<thead>
<tr>
<th>Items</th>
<th>Frequency</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family Firms that have a Board</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>17</td>
<td>32.7%</td>
</tr>
<tr>
<td>No</td>
<td>35</td>
<td>67.3%</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>100%</td>
</tr>
</tbody>
</table>

| Total no. on Board of Directors             |           |          |
| 2                                          | 6         | 35.2%    |
| 3                                          | 2         | 11.8%    |
| 4                                          | 4         | 23.6%    |
| 5                                          | 3         | 17.6%    |
| 6                                          | 1         | 5.9%     |
| 10                                         | 1         | 5.9%     |
| Total                                      | 17        | 100%     |

| Composition of Board of the Family Firms    |           |          |
| (n = 17)                                   |           |          |
| No. of Family Members                      |           |          |
| 2                                          | 5         | 29.4%    |
| 3                                          | 5         | 29.4%    |
| 4                                          | 7         | 41.2%    |
| Total                                      | 17        | 100%     |

| No. of non-family members                   |           |          |
| 0                                          | 10        | 58.8%    |
| 1                                          | 5         | 29.4%    |
| 3                                          | 1         | 5.9%     |
| 7                                          | 1         | 5.9%     |
| Total                                      | 17        | 100%     |
## Appendix 11 – Exploratory Factor Analysis – Survey Questionnaire (Phase 2)

### Table H: Exploratory Factor Analysis for Structural Social Capital of Relational Governance

<table>
<thead>
<tr>
<th>Items</th>
<th>Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level of social interaction</td>
</tr>
<tr>
<td>We visit or see each other almost every day</td>
<td>0.856</td>
</tr>
<tr>
<td>We maintain close social relationships with each other</td>
<td>0.853</td>
</tr>
<tr>
<td>We know each other on the personal level</td>
<td>0.694</td>
</tr>
<tr>
<td>We work together almost every day</td>
<td>0.647</td>
</tr>
<tr>
<td>The family very often uses informal family meetings</td>
<td>0.511</td>
</tr>
<tr>
<td>The family very often uses family council</td>
<td>-</td>
</tr>
<tr>
<td>The family very often uses formal family meetings</td>
<td>-</td>
</tr>
</tbody>
</table>

| Reliability (Cronbach’s Alpha)                                        | 0.80 | 0.65 |
| Eigen Value                                                           | 3.07 | 1.54 |
| Percentage of Variance                                                | 43.82% | 21.93% |
| Total variance                                                        | = 65.75% | |

369
<table>
<thead>
<tr>
<th>Items</th>
<th>Factors</th>
<th>Business goals &amp; strategies</th>
<th>Succession plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share the same vision about our firm’s goal (SV 1)</td>
<td>0.669</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Agree with pursuing stable and risk-averse strategies (SV 2)</td>
<td>0.602</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Commit ourselves to our firm’s long-term goals (SV 3)</td>
<td>0.790</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Agree about the long-term development objectives of the firm (SV 5)</td>
<td>0.837</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Communicate very openly among ourselves (SV 8)</td>
<td>0.681</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Agree that important business decisions should have the support from top managers (SV 14)</td>
<td>0.579</td>
<td>-</td>
<td>0.965</td>
</tr>
</tbody>
</table>

Agree that succession planning is important to the long-term survival of the firm
See succession planning as a process rather than an event

Reliability (Cronbach’s Alpha) | 0.85 | 0.945 |
Eigen Value                   | 4.63 | 2.05  |
Percentage of Variance        | 33.06% | 14.61% |
Total variance = 47.67%
### Table J: Exploratory Factor Analysis for Business Decision

<table>
<thead>
<tr>
<th>Items</th>
<th>Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Formalise family from business</td>
</tr>
<tr>
<td>The business has a formal document which describes the relationship between family and business</td>
<td>0.852</td>
</tr>
<tr>
<td>We have a clearly written family code</td>
<td>0.831</td>
</tr>
<tr>
<td>Our strategies are always consistent with our shared vision</td>
<td>-</td>
</tr>
<tr>
<td>We have strong commitment to and hold each other responsible for our made decisions</td>
<td>-</td>
</tr>
<tr>
<td>Strategies are always driven by the founder/CEO/owner-manager's vision</td>
<td>-</td>
</tr>
<tr>
<td>We agree that important business decisions should have the support from top managers</td>
<td>-</td>
</tr>
<tr>
<td>Final decisions must be discussed with other top managers before action is taken</td>
<td>-</td>
</tr>
</tbody>
</table>

| Reliability (Cronbach’s Alpha) | 0.89 | 0.77 | 0.74 |
| Eigen Value                   | 3.92 | 3.05 | 1.42 |
| Percentage of Variance        | 24.5%| 19.1%| 8.9% |
| Total variance = 52.5%         |      |      |      |
Table K: Exploratory Factor Analysis of Strategic Planning

<table>
<thead>
<tr>
<th>Items</th>
<th>Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Long-term focus</td>
</tr>
<tr>
<td>The long-term strategies of our business are planned long in advance</td>
<td>0.829</td>
</tr>
<tr>
<td>Our business has a clear vision of long-term business development</td>
<td>0.731</td>
</tr>
<tr>
<td>Our strategies are always driven by the need to change</td>
<td>0.631</td>
</tr>
<tr>
<td>We develop a range of alternative business strategies</td>
<td>-</td>
</tr>
<tr>
<td>We conduct careful market analysis before action is taken</td>
<td>-</td>
</tr>
<tr>
<td>One of our decision strategies is to wait and see what happens in the</td>
<td>-</td>
</tr>
<tr>
<td>market</td>
<td></td>
</tr>
<tr>
<td>We tend to take conservative, safe approach when making important</td>
<td>-</td>
</tr>
<tr>
<td>business decisions</td>
<td></td>
</tr>
<tr>
<td>Reliability (Cronbach’s Alpha)</td>
<td>0.79</td>
</tr>
<tr>
<td>Eigen Value</td>
<td>3.86</td>
</tr>
<tr>
<td>Percentage of Variance</td>
<td>29.81%</td>
</tr>
<tr>
<td>Total variance = 51.65%</td>
<td></td>
</tr>
</tbody>
</table>
### Table L: Exploratory Factor Analysis for Response to Business Environment

<table>
<thead>
<tr>
<th>Items</th>
<th>Factors</th>
<th>Rational response</th>
<th>Quick response</th>
</tr>
</thead>
<tbody>
<tr>
<td>We forecast our performance</td>
<td>0.808</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>We frequently gather feedback from clients/customers</td>
<td>0.643</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>We put a substantial amount of thoughts and analysis into key decisions</td>
<td>0.566</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>We have formalized systematic search for opportunities about acquisitions/investments</td>
<td>0.517</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>We always use gut-feel to choose our strategies because time pressure is often substantial</td>
<td>-</td>
<td>0.846</td>
<td></td>
</tr>
<tr>
<td>We have an emphasis on the immediate future in making business decisions</td>
<td>-</td>
<td>0.719</td>
<td></td>
</tr>
<tr>
<td>Reliability (Cronbach’s Alpha)</td>
<td>0.77</td>
<td>0.75</td>
<td></td>
</tr>
<tr>
<td>Eigen Value</td>
<td>2.67</td>
<td>1.77</td>
<td></td>
</tr>
<tr>
<td>Percentage of Variance</td>
<td>38.2%</td>
<td>25.2%</td>
<td></td>
</tr>
<tr>
<td>Total variance = 63.4%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Table M: Exploratory Factor Analysis for Factors that Contribute to Business Growth

<table>
<thead>
<tr>
<th>Items</th>
<th>Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Employee performance</td>
</tr>
<tr>
<td>Staff with high productivity</td>
<td>0.843</td>
</tr>
<tr>
<td>Staff capability of marketing and selling products/services</td>
<td>0.838</td>
</tr>
<tr>
<td>Staff with relevant expertise and knowledge</td>
<td>0.763</td>
</tr>
<tr>
<td>Employees’ strong commitment to achieve business goals</td>
<td>0.709</td>
</tr>
<tr>
<td>CEO/Owner-manager’s strong personal relationships/networks with suppliers</td>
<td>-</td>
</tr>
<tr>
<td>CEO/Owner-manager’s strong personal relationships/networks with customers</td>
<td>-</td>
</tr>
<tr>
<td>Reliability (Cronbach’s Alpha)</td>
<td>0.85</td>
</tr>
<tr>
<td>Eigen Value</td>
<td>5.384</td>
</tr>
<tr>
<td>Percentage of Variance</td>
<td>41.42%</td>
</tr>
<tr>
<td>Total variance = 51.1%</td>
<td></td>
</tr>
<tr>
<td>Items</td>
<td>Factors</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>------------------------------</td>
</tr>
<tr>
<td></td>
<td>Product/service performance</td>
</tr>
<tr>
<td>Product/service quality</td>
<td>0.876</td>
</tr>
<tr>
<td>Product/service innovation</td>
<td>0.773</td>
</tr>
<tr>
<td>Adoption for new technology</td>
<td>0.757</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>0.704</td>
</tr>
<tr>
<td>Product/service variety</td>
<td>0.645</td>
</tr>
<tr>
<td>Revenue Growth</td>
<td>-</td>
</tr>
<tr>
<td>Sales Growth</td>
<td>-</td>
</tr>
<tr>
<td>Reliability (Cronbach’s Alpha)</td>
<td>0.86</td>
</tr>
<tr>
<td>Eigen Value</td>
<td>4.09</td>
</tr>
<tr>
<td>Percentage of Variance</td>
<td>51.09%</td>
</tr>
<tr>
<td>Total variance = 70.05%</td>
<td></td>
</tr>
</tbody>
</table>
Table O: Exploratory Factor Analysis of Business Environment

<table>
<thead>
<tr>
<th>Items</th>
<th>Technology-oriented environment</th>
<th>Business threats to survival</th>
<th>Market predictability</th>
</tr>
</thead>
<tbody>
<tr>
<td>The production/service technology is often subject to change in the environment</td>
<td>0.769</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>We have a strong emphasis on R&amp;D, technological leadership and innovation</td>
<td>0.689</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Scarce supply of labour/resource is a threat to us</td>
<td>0.409</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Price competition is a threat to us</td>
<td>-</td>
<td>0.821</td>
<td>-</td>
</tr>
<tr>
<td>The current business environment causes a threat to the survival of the firm</td>
<td>-</td>
<td>0.755</td>
<td>-</td>
</tr>
<tr>
<td>Government interference is a threat to us</td>
<td>-</td>
<td>0.439</td>
<td>-</td>
</tr>
<tr>
<td>Our business is highly stable and predictable</td>
<td>-</td>
<td>-</td>
<td>0.925</td>
</tr>
<tr>
<td>It’s easy for us to forecast demands and consumer tastes</td>
<td>-</td>
<td>-</td>
<td>0.691</td>
</tr>
<tr>
<td>Reliability (Cronbach’s Alpha)</td>
<td>0.68</td>
<td>0.80</td>
<td>0.75</td>
</tr>
<tr>
<td>Eigen Value</td>
<td>2.97</td>
<td>2.30</td>
<td>1.80</td>
</tr>
<tr>
<td>Percentage of Variance</td>
<td>24.79%</td>
<td>19.20%</td>
<td>15.0%</td>
</tr>
<tr>
<td>Total variance = 58.97%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Items</td>
<td>Factors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>-------------------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>The generation gap</td>
<td>Lack of succession interest/imminence</td>
<td></td>
</tr>
<tr>
<td>Family managers from the next generation complaining about the lack of autonomy in the firm</td>
<td>0.999</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Personality clash between generations</td>
<td>0.898</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Poor relations with the next generation</td>
<td>0.813</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>The next generation not satisfied with the family firm’s salary level</td>
<td>0.617</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>The next generation not interested in the family firm’s industry</td>
<td>-</td>
<td>0.785</td>
<td></td>
</tr>
<tr>
<td>Choosing a successor is not a relevant issue until retirement</td>
<td>-</td>
<td>0.628</td>
<td></td>
</tr>
<tr>
<td>Reliability (Cronbach’s Alpha)</td>
<td>0.91</td>
<td>0.61</td>
<td></td>
</tr>
<tr>
<td>Eigen Value</td>
<td>3.95</td>
<td>1.82</td>
<td></td>
</tr>
<tr>
<td>Percentage of Variance</td>
<td>49.37%</td>
<td>22.73%</td>
<td></td>
</tr>
<tr>
<td>Total variance = 72.1%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>