

FAMILY POWER IN GOVERNANCE OF FAMILY BUSINESSES: CASES FROM SRI LANKA

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Abstract

Family businesses have been widely researched over the years. For instance, scholars attempted to distinguish family businesses over nonfamily businesses using many criteria. Although there is no commonly accepted such criteria to identify family businesses more specifically, family power has been identified as a key criterion to explain the governance of family businesses. Following qualitative research approach and undertaking four case studies this paper aims to explain the ways in which family power shapes the governance of family businesses. The existing literature suggests, among other things, that family ownership and their involvement in management contribute heavily on the governance of family businesses. The notions of agency and stewardship theories propose that family power could create positive outcomes such as minimizing agency costs between owners and managers. However, it can also form governance issues due to lack of professional management particularly when the organizations become larger. Data were gathered through interviews of directors, owner-managers, family-tied non-executive employees of the four family owned businesses, and analyzed in three interactive processes, namely data reduction, data display, and conclusion drawing and verification. The findings suggest that the ownership control influence differently on the governance of family owned businesses depending on whether the family business is single owned or multiple owned. Further, the findings also suggest that the family management plays a significant role in the governance of family owned businesses. It was revealed that the level of involvement of family members on governance vary depending on the extent that family members represent at the directorate, managerial and non-managerial levels of the family businesses.

Keywords: *Family power, Governance, Family businesses, Case studies*

JEL Classification: *M10, M20*

I. BACKGROUND OF THE STUDY

Because of the rich history and tradition of strong family ties, family businesses have long been considered as a part of the culture (Chrisman et al, 2005; Nanayakkara, 1992). Through this family relationship, members of a family share economic, social and physiological security as well as conflicts and anxieties of its members (Lee et al, 2010; Jayawardena, 2000). The private sector in Sri Lanka tends to inherit its business tradition from mercantilist functions of the colonial private entrepreneurs. For example, they centered their businesses on three major plantation crops (tea, rubber and coconut) with a bias towards the trade, commerce, and services. Majority of those firms, which were preliminary based on family ownership including leading firms in the private sector, did not promote professional management in their firms. Instead, managerial positions were largely reserved for family members and thus the individual firms' behavior is largely influenced by families (Nanayakkaa, 1992). Thus, family power plays a significant role in governing such firms.

On the one hand, the family power could create positive outcomes such as minimizing agency costs between owners and managers. In family businesses, the business provides income to the family, while the family provides paid and unpaid labor, and contributes to the capital via supply of money, space, equipment, and other factors of production vital to the business. Despite the differences in the nature of family ownership and management in businesses locally and internationally, many family business research found that the family businesses outperform compared to their counterpart due to the family power in such businesses (e.g., Anderson & Reeb, 2003; McConaughy *et al.*, 2001; Miller & Le Breton-Miller, 2005; Dyer 2006; Villalonga & Amit 2006). On the other hand, family power via ownership and management in the family businesses can also form governance issues due to lack of professional management particularly when the organizations become larger.

For instance, Salvato & Leif (2008) found that family businesses have to confront with unique challenges to survive and prosper in the long run. Miller *et al.*, (2004) and Anderson & Reeb (2003) also revealed that only a small number of family businesses survive up to the third generation. As a developing economics, in the Sri Lankan business environment, a substantial involvement of family members in the business can be seen heavily in sole proprietorship and partnership businesses. Such businesses are mostly small and medium-sized enterprises. At the same time, the involvement of family has also been emphasized in the names of some other businesses, for example, *Sahodarayo* (Brothers), *Puthrayo* (Sons), and *Samuha Viyapara* (Group of Companies). The last category of businesses is mostly the privately held limited liability companies. Given the importance of family owned businesses into the economy of Sri Lanka it is important to investigate how the family businesses are govern in the country.

This paper aims to develop a framework on the influences of family power on the governance of family businesses in Sri Lanka. The power of the family in family business depends largely on the ownership and the management (Kuruppuge & Ekanayake, 2016). The former seems to be based on ownership share and ownership structure in the family business while the latter can be depended on the degree of representation of family members in the board, the team of management and other categories of staff. Such factors are likely to influence the governance of family businesses to a greater extent. The remainder of the paper is organised as follows. Section two briefly describes the theoretical underpinnings of the study. Section three introduces research methods and the case organisations. Findings of the study are presented in sections four and five. Section four describes how family ownership shapes the governance of family businesses. Section five provides an analysis of the ways in which family management influences the governance of family businesses. The final Section provides some concluding remarks.

II. THEORETICAL UNDERPINNINGS OF THE STUDY

The governance of family businesses can be analyzed differently through the notions of agency and stewardship theories. Agency theory has played a major part in organizational studies. The basic assumption underlying in the agency theory is that agents tend to be opportunists who, unless monitored effectively, will exploit owner-principals. Hence, the agency perspective derives from economic views of people and claims that those who have power and superior information will use them to exploit others. Usually, this theory focuses strongly on top managers because they are at the strategic apex of the organization as they are responsible for resource allocation decisions, new market entries, acquisitions and divestitures (Sanders & Carpenter, 1998).

According to agency theory, agency problems arise when principal-agent relationships are characterized by different utility functions and informational asymmetries. This feature does not exist in family businesses to a larger extent due to the presence of owner-managers. Thus, it is likely that the value or performance enhancing effects of family ownership are experienced when the family actively manages the business through a family CEO or Chairman of the Board of Directors. However, the family ownership and its high levels of control can lead to an agency problem with the minority owners or dormant owners (Cronqvist & Nilsson, 2003). For instance, there is a possibility that owner-managers pursue utility for themselves and exploit other stakeholders by entrenching incompetent family managers and expropriating business assets. Moreover, relatives of the family also seem to be motivated to engage in business activities having different goals in their minds.

By contrast, stewardship theory suggests that agents' (managers') interests are aligned with those of the business owners. For instance, interests are directed towards organizational objectives rather than personal objectives (Davis *et al.*, 1997). This theory also assumes that people are driven by high level of needs such as self-actualization, social contribution, loyalty, and generosity. Thus, stewardship theory is not in favor of control mechanisms because those might undermine the pro-organizational behavior of the agent. Further, this theory advocates that not all agents are created equal. Some executives respond to a higher calling (i.e., less economically pecuniary, more socially driven) in which they strive to be effective stewards of their organization and all of its stakeholders in an effort to create a sustainable and strong business (Davis, Schoorman, & Donaldson, 1997). Stewardship theory offers a distinct and complementary perspective to study family business governance. It portrays that family owners are freed from short-term financial market demands, but use their influence to benefit all of the organization's stakeholders, and ultimately to enhance the sustainable value of the business. For instance, a family CEO could take a long-term perspective on the family business, and they may be highly motivated to preserve the business for the succeeding generation of the family and gain satisfaction from being an effective steward to the business. This suggests that family owners and engaged members are emotionally committed to the long-run survival and reputation of their businesses, as their fortunes, careers, personal honor as well as the future of their children and ancestors depend on the success of family business.

III. RESEARCH METHODS

The study adopts qualitative research methodology, more specifically the case study research method. Data gathered through interviews have been used to address the aim of the research. Twenty interviews of key people from four case studies were conducted. Purposive sampling technique was employed to select cases and respondents. The interviewees included executive and non-executive directors (ED and NED), owner-managers (OM), and family-tied non-executive employees (FE) of the four family owned businesses. Two EDs, a NED, Two OMs and a FE responded in Case 01. Case 02 was represented with an ED, a NED, two OMs and one FE. An ED, a NED, two OMs and a FM commented in Case 03. An ED, a NED, an OM and a FE have been interviewed at Case 04. Each interview lasted 60 to 90 minutes. Questions were asked to explore how family power influences the governance of family owned businesses in Sri Lanka. Such questions were based on two main variables of family power as highlighted in the literature, namely family ownership and family involvement in management, but the interviewees have been given an opportunity to freely express their views in order to identify other ways that these variables could influence on the study phenomenon.

The data were analyzed in three interactive processes as suggested by Miles and Huberman (1994), namely data reduction, data display, and conclusion drawing and verification. Data were coded into family ownership and their involvement in management with a view to identify how family power influences the governance of family owned business in the data reduction stage. The identified links have further been classified to illustrate the ways in which family power influences the governance of family owned businesses at the data display stage. For this purpose, cross case analysis has been undertaken with a view to identify similarities and differences within and among cases. In the conclusion drawing and verification stage, the identified relationships were interpreted and explained with reference to the context of each case organization.

IV. THE CASE ORGANIZATIONS

This section provides a brief description of the four case organizations, hereafter referred to as “Case 01”, “Case 02”, “Case 03” and “Case 04”, in accordance with the chronological sequence of conducting the field study.

Case 01

The Case 01 is a manufacturing company located in Ja-Ela, Sri Lanka. Main products of the business are water pumps, agricultural machinery, and electrical panel boards. Annual sales volume in the firm is around US\$2.5 Million. About 500 staff members are employed in the business. The company is engaging heavily in Research and Development. Thus, the quality of the products in general – engineering in particular – is acknowledged even internationally. In addition, it has built a strong dealer network over the generations. The structure of the organization is geared to meet the most demanding deadlines on schedule and build cordial rapport with business partners over the world.

The history of Case 01 goes back to the year 1905 where Sri Lanka was a British colony. Engineering similar to many areas of enterprises was the sole preserve of the British. But the founder of this business was one of the few locals who started business those days. The beginning was modest, serving and repairing machinery used in tea and rubber manufacturing. The founder of this business was a member of the Institute of Mechanical Engineers in England whose specialty was making steam boilers and machineries. Such machineries were the main source of power during that era. By 1932, this business was the only Ceylonese Company rated among the top five engineering companies in the island. Since then, innovation opened and widened into many successful ventures in and outside of the core area of business. Following the founder’s era one of his sons gave the leadership in the next generation of the business. The son was also a chartered engineer who developed the present brand name of the business. His main contribution was to introduce a water pump into the local market in 1950s. He also diversified the main business into various sectors, for example, agriculture and tourism. The business was taken over by the third generation 1965 by the sons of immediate Chairman. Three of them were chartered engineers while the other one was a manager. In 2009, they decided to divide its assets among four of them while keeping the control right under a board of directors. The present board consists of eight directors of whom five are family members while the rest are non-family members (Case 01, Respondent – ED 01).

Case 02

The Case 02 is a furniture shop based in Moratuwa in Sri Lanka with a number of branches island-wide. While the business has been progressed over decades with steady and consistent manner it maintains the family values and traditions without any interruption. It caters to upper class society locally and internationally as their furniture is highly priced, beautifully finished work of art, and thus those who value good craftsmanship know it, love it and treasure it (Case 02, Respondent - NED). The factory uses only the finest wood for their smoothly honed furniture and often embellish items through in laying or engraving. Their quality of craftsmanship was

honored by winning a prestigious award at the Zagreb Trade Fair in 1977. This business name was also shown at Milan in Italy in 1978, the buyers and sellers meet in New York in 1978, and at the Australian Trade Fair held in Melbourne in 1983. The business began in 1916 in Moratuwa in Sri Lanka which is considered as the traditional home of furniture by very skillful entrepreneurs. At the initiation stage, very simple and traditional tools and techniques were used in the operation of the business. By 1922, the business has been developed rapidly with the expansion of its distributional channels through apothecaries, broughams and millers. In 1932, a centralization of operations brought the workshop, display point and residence under one roof in Moratuwa. In 1959, the first outstation branch was opened in Kandy followed by Matara in 1963, and Kollupitiya in 1972.

The founder who initiated the business displayed his entrepreneurial skills at the age of 16 years. His father, himself a skilled carpenter and a dedicated craftsman, who watched his son closely, convinced that he had a worthy heir. The founder took the business into the decades and as time went on, it was his sons who took over the responsibility. Still, the four sons of the founder of the business serve as the members of the board of directors, and manage the company as a family business bearing different responsibilities in the operations.

Case 03

The Case 03 is a famous sweets business located in Ambepussa in Sri Lanka. This business was started as a small scale enterprise in 1934. The business had been initiated in Gampaha and then had been shifted to Ambepussa after some time. At the beginning of the business, sweets products were distributed by a push cycle by the founder. Later in 1942, the founder had started delivering the sweets all over the country as a large scale business. But in 1995, he had stopped all delivery services and established the business as a restaurant in Ambepussa. Two branches have also been started at Alawwa and Ambepussa while three sales representatives were hired to export the sweets to Japan, Australia and Canada.

After the death of the founder, the business currently runs by his wife and family members. There are eight family members who are directly involved in the business, and around 300 workforce is attached to the business. The business attracts both local and foreign customers who are eager to taste traditional sweetmeats such as *kondakavum*, *mungkavum*, *kokis*, *aluwa*, *aggala*, *helapa* and *velithalapa* and local beverages. Currently, the competition for sweetmeats has become high as there is a big demand for traditional sweetmeats and more Sri Lankan companies are venturing into large-scale sweetmeat manufacturing (Case 03, Respondent - ED). However, the respondents comment that there is a steady demand for their traditional sweetmeats throughout the year.

Case 04

The Case 04 is a business of optical products and hearing aids. The optical division of the company gives the fusion of modern technology with highly-experienced and friendly staff members who are ready to serve in all customers' eye-care needs (Case 04, Respondent - ED). The service includes providing visual screening and assessment, contact lenses and prescription glasses, high quality sun glasses, etc. Meantime, the business provides ophthalmic lenses, contact lenses and diagnostic instruments for eye examination among others. The hearing division provides audiological instruments and hearing aids to customers. The history of Case 04 goes back to 1986 when a very innovative and experienced entrepreneur together with his wife started this business. At the beginning, it was a small operation from their own house at Gampaha in Sri Lanka, but later the business had been moved to a premise in the city of Gampaha where they were joined by owner's two cousins. Currently, around 30 people are employed in the business while four family members are directly involved in the business. The mission of the business is to become a quality service provider for the vision and hearing impaired community in all aspects of their necessities (Case 04, Respondent 02).

V. DEVELOPMENT OF CONCEPTUAL FRAMEWORK

Family Ownership in Governance

Ownership structure influences firm operations and behaviour of managers. For instance, businesses in which ownership is concentrated are likely to outperform because their owners have the power and incentive to better monitor their managerial agents and thereby avoid the information asymmetries that raise agency costs (Bainbridge, 2005). Fama and Jensen (1983) argue that family ownership is particularly efficient in minimizing agency problems because shares are in the hands of 'agents' whose special relations with other decision agents allow agency problems to be controlled without separation of the management and control decisions. For example, family members have the advantage in monitoring and disciplining related decision agents. Further, "family members have many dimensions of exchange with one another over a long horizon, and therefore, have advantages in monitoring and disciplining related decision agents" (Fama and Jensen, 1983). Since ownership of family firms is concentrated within the family, members tend to employ family members in running the family business. In the analysis, two cases represent single family member ownership and the other two represent multiple family member ownership of businesses. Thus, for the purpose of this study, the analysis of family

ownership in governance can be subdivided into two, namely single owner family business and multiple owners family business.

Single owner family business

In certain family businesses the ownership control is vested with only one family member who also leads the business. This type of family businesses is identified as single family owner business in this study. The owner in this type of a business is likely to have more power than any other member in the family business with the absolute right to make unilateral decisions (Fama & Jensen 1983). Moreover, it is a known fact that the role identities and priorities of family owners and owner-managers are expected to be shaped by their stable and close associations with other influential family members in the business (e.g., Marnet, 2005).

The nature of the influence of family ownership and its application in the family business appear to depend upon the ownership structure of the business. In the analysis, it was revealed that the ownership of the business is a significant factor in terms of family governance. When business is owned by a single family member, irrespective of the kinship, all family members who involve in the business are more respectful to the owner of the business. On the other hand, he or she has also the absolute power in the family. The nature of single ownership of family business and its influence on governance can be illustrated by the following views.

‘This is a family business and we (all the members of the family) are working together for the benefit of the business as well as the family. But, this is still a single owner business and the whole business belongs to me. I did not transfer the ownership of the business to anybody yet’.
(Respondent – ED, Case 03)

‘This business belongs to me. All other family members perform as officers of the business but they do not have any ownership right’. (Respondent - ED, Case 04)

Cases 03 and 04 belong to ‘single owner family business’ category. One of the common features of single owner family business is that the owner of the business maintains the super power in the business as well as in the family. When single owner family businesses compare with multiple owners family businesses, this superior power of the single owner is evident clearly. Respondents in the managerial capacity in both cases 03 and 04 expressed their views giving the prominence to their owner of the business. Despite the fact that these managers are very close relatives of the single owner, they appear to be very keen and concerned about the owner. More specifically, at the interviews, managers who are also family members, express their great respect, obligation as well as dedication towards the business and the owner. It seems that when the family business is a single owner business, the owner of the business has more control over managers of the business. This proposition tends to differ when the business owns by multiple family members as discussed in the following section.

Multiple owners’ family business

This category represents multiple family member owners representing different nuclear families and generations of a founding family. The distribution of ownership of the business depends on family (e.g., the number of children in the family) and business (e.g., the number of branches in the business) circumstances. The following views indicate clearly how the ownership influences the governance of this type of family owned businesses.

‘It is very difficult to say about the ownership of the business. This business belongs to all top managers of the business. Chairman, his wife, two sisters and myself are working as directors’.
(Respondent – NED 01, Case 01)

‘My father as the Chairman, before his death, decided to transfer the business to four of us who are running the business now. My elder brother is now serving as the Chairman. However, this business belongs to four of us.’ (Respondent - ED, Case 02)

The respondents of cases 01 and 02 pointed out that when the ownership is shared by a group of persons it is very difficult to identify the ownership share of the business, but they engage in the business holding joint ownerships. Even though the members have become owners in this category (e.g., case 02), still they deserve to carry out their duties under the supervision of the Chairman of the business. However, the Chairmen under this category seem to have less power than the Chairmen of the single owner family businesses. Moreover, both Chairmen of Cases 01 and 02 are appointed leaders in contrast to Cases 03 and 04 where the Chairmen were founder members of the business. These findings suggest that the ownership control influence differently on the governance of family owned businesses depending on whether the family business is single owned or multiple

owned. Next section discusses the ways in which family management in business influence the governance of family owned businesses.

Family Management in Governance

Family management appears to exist in all levels, namely directorate, managerial as well as non-managerial levels of the family businesses taken as the cases for this study. Prior research related to family businesses also reveals that family management in business play a crucial role in running family businesses. For instance, researchers in family businesses generally agree that family management in the business is what makes the family business different from non-family business (Miller and Rice, 1983). They argue that family management will lead to distinctive goals, behaviors and performance outcomes (e.g., Chrisman *et al.*, 2005; Dyer, 2006) within and outside the family business. Further, Astrachan, Klein, & Smyrnios (2002) argue that family business should be considered according to how and how much the family is involved in managing the business that can give a clear distinction between family and non-family businesses at the very first outset. Furthermore, Chrisman et al., (2005) emphasize that the family power, via the degree of family involved in managing the family business, makes distinctions even within family firms.

Sharma (2004) outlines several variations of family firms in terms of family management. The first is the control of the family over voting or power and day-to-day management, i.e., the family's control over governance. The second and third variations are the depth and breadth of family management in the organization. Depth refers to the involvement of family members across generations. This commonly refers to leadership succession within the family. Breadth of family management means the number of paid or unpaid family members are in the firm. This may range from the unpaid labor of housewives undertaking small tasks for the business to most or all positions bear by family members within the business.

The review of literature related to family management reveals that family businesses are different type of business over non family businesses mainly due to the family management in the family businesses. Further, it revealed that not all family businesses become equal in terms of family management. Family management itself also generates the deviation among family business firms. Thus, it can be concluded that family management plays a significant role in governing family businesses. Following sub-sections respectively discuss the ways in which family members involve in managing the family business at directorate, managerial and non-managerial levels.

Family management at directorate level

It was evident that all four cases have families involved at the highest level of the business decision making. More specifically, the family directors provide strategic direction to the business and oversee the activities of the managerial as well as non-managerial level of staff. However, the number of family directors involving at the strategic level of decision making seem to be different, for example, in some cases all the family directors are regular in business decisions while in some other cases family directors do not appear in business decision making regularly. Following quotes highlight such instances.

'This business is owned by four of us now. Important decisions with regard to the business are taken by four of us. Sometimes we have separate meetings for special matters'. (Respondent – OM 01, Case 02)

'Normally, I am not invited to discuss all the matters. Some decisions are taken mostly by my brother after talking to his wife and sometimes to even his friends. But, when there is an important business decision, for example, buying a high cost machine, setting annual sales targets and budgets, he always consults me'.(Respondent – OM 02, Case 03)

These views suggest that despite all the family directors contribute for strategic level decision making in their firms, the degree of involvement in management seems to have some variation among cases. Further, it was evident that most of the strategic level decisions are taken by the owner (i.e., chairperson and/or managing director) of the business. For example, respondents from Case 01 stated that other family members, who are in the directorate, involve very little in business decision making. Thus, their participation in the business decision making has been limited to as and when it is required by the executive director. Accordingly, family members who involve in the governance process at top level can be identified in three different ways, namely as nominal members, appointed members and observers.

Nominal members

The analysis of cases based on the respondents views reveals that some family members representing the directorate have become nominal members in the decision making process. More specifically, they have become members of the directorate merely because of the relationship with the family, and because they were nominated

by the owner/s of the firm. Thus, even though they are members of the directorate, they do not attend business decision making regularly. The views of the following respondent show that some members participate at the directorate meetings on a 'nominal' basis, but they seem endorsing the strategic level decisions taken by others most of the time.

Chairman, another director with 39 years of experience and I are making day to day business decisions, while others (mother and two sisters are also directors) are participating in the board meetings sometimes. They do not oppose to whatever the decisions taken by us at the operational level. If there are unsolved issues in the firm they provide their inputs. (Respondent ED 02, Case 01)

The above quote also suggests that very close relatives serve being directors as per the tradition of the family businesses. It implies that even though family members represent at the strategic level decision making forums, all members do not make an influence on such decision making. They appear to represent the meeting merely to support the decisions taken by other family members.

Voluntary members

The other nature of involvement in governance at directorate level by family members is attending the meeting on voluntary basis. The interesting fact came out from the analysis is that these 'voluntary' family members are attending such meeting without any financial reward, i.e., a monthly payment or any other form of compensation. But, their presence in the meetings has become important to the owners of the business to make strategic level decisions. For instance, Respondent - NED of Case 04, who is the Chairman of the firm stated,

'My uncle serves as a member of the decision making team. I have never paid him a coin as a salary. But, whenever I have a problem I talk to him and invite him for the meetings to get his support for decision making. He is almost there in every meeting, and now it's hard for me to run the business without his support'.

Explaining about the role of the same person who contributes to the governance of the business on voluntarily basis, one of the managers explained,

'As a very close relation, boss's uncle is doing a great job. At the beginning of my career here in the firm, he was only a visitor for us. Day by day, especially after his retirement, he has become a daily visitor to the firm. Because of his affiliation with our boss, now he has become one of the top decision makers of the firm. He always guides boss correctly to the point. Even now our boss can't take decisions without him'. (Respondent - OM, Case 04)

It was clear that this type of involvement in management on voluntarily basis by close relatives of the family is common in several other cases too, but on different degrees. This type of voluntary involvement could be due to the non-economic goals of family members who have a genuine interest to see the development of family as well as the business. They tend to believe that if the business runs well in future it will be good for them as well as for the family, for example, their names will remain as founders of the business, while future generations of the family can be benefited by a successful business in times to come.

Appointed members

A common feature in all four cases about family management in governance at directorate level is family members being served as appointed directors. Each case study is represented by appointed family members at strategic level decision making. Their significant character in the governance of the family businesses is that they often represent the directorate as well as actively involved in day-to-day business decision making. Following views of the two respondents represent this idea.

'I have nineteen years' experience in this industry and professionally I am an engineer. I have no blood relation to this family even though I am appointed as non-executive director of this company'. (Respondent - NED, Case 01)

'Newly appointed director from outside the family is a real resource for our company. He has new ideas to develop the business. (Respondent – OM 01, Case 02)

According to the respondent 01 of Case 02, the authority to engage at strategic level decision making lies with the present (male) directors. This authority was given to them by the founder owner of the business. On the

one hand, this shows the ownership transformation process in family business into the next generation. On the other hand, it reveals the nature of family business in terms of power transformation within family and between two generations particularly in a developing country context. It is also evident that appointed members in the family businesses are very typical and play a significant role in shaping the governance of family businesses. Their role in the strategic level decision making process is emphasized by all the respondents in the four case studies, and thus it can be concluded that appointed members has become an important feature of family management in the governance of family businesses. Consistent with this finding, Nanayakkara (2004) also revealed that appointed members' involvement in governance is a common feature in all family firms in Sri Lanka.

Family management at managerial level

The involvement of a family member in managerial capacity takes the form of a founder or family descendent who hold the position of the CEO or any top managerial position. Following the notions of the theories of agency and stewardship, it can be argued that family members' involvement as managers can reduce agency costs and increase attitudes of stewardship. Hence, both individual members and family as a whole tend to be benefited by extending investment time horizons and building firm capabilities. Subject to the educational and other qualifications of family members who join the business as managers, and unlike nonfamily CEOs who are often driven by short-run motives, many family managers seem to have the power, incentive, and knowledge to run the business effectively. This is evident by the empirical analysis.

Family members hold senior managerial positions to different degrees in the four case studies under investigation. Case 01 appears to have the highest level of family involvement in management where all top positions in the business are reserved to close relatives of the governing family. Respondent - OM 02 of Case 01 noted that, *'Most of our managers are our close relatives'*. Case 04 has all but few family members holding managerial positions. Lastly, several non-family members have been represented in the management team in the Cases 02 and 03. However, the significant involvement of family members in day-to-day managerial decision making was visible in all four cases. Such involvement can be broadly classified into the capacities of functional managers and branch managers for the purpose of this study.

Functional managers

Some family members carry out their duties in-charging different business functions can be classified as functional managers. The views of the respondents suggest that each of the family members is given the responsibility depending on their area of expertise. In this way, both the business as well as the individual are benefited mutually. Following quotes show the ways in which managerial appointments are made at the family businesses.

'Actually, I don't know carpentry, but my brothers know it well. The second brother is in-charge for carpentry workshop. Father taught all of them about carpentry well. I was unable to obtain necessary training. My elder brother is talented in marketing and he looks after the sales outlet. As my public relationship is good, I mainly attend for business matters with out-side parties such as customers, suppliers and banks'. (Respondent - OM 01, Case 02)

'I joined the company in 2011 as a HR executive. My father-in-law wanted me to join in the HR function as there was nobody in the family to look after that function'. (Respondent - 02, Case 03)

Thus, family members holding managerial positions are likely to depend on their talents and expertise in some cases, and in other cases, they have been trained to become respective functional managers. In the latter case, it was also highlighted the need of the Chairman to have at least one family member manager representing all business functions. Respondents have also commented that inclusion of family members as functional managers is resulted with positive financial performance and also created less room for frauds and misuse of funds.

Branch managers

The other nature by which family members involve in managerial capacities of businesses is in the capacity of branch managers. When the business has branches located away from the head office, it is more likely that family members are appointed as branch managers. This is evident by the following view.

'There are eight family members who are directly involved in the business right now. My sister's husband is in charge for the shop in Ambepussa. Alawwa branch is managed by one of my

uncles' son. Likewise other family members are also contributing to the business in different capacities'. (Respondent – OM 01, Case 02)

Appointing family members as branch managers is more likely to occur due to mutual understanding of the owners and the managers as explained in the stewardship theory. All, except Case 04 which does not have separate branches, stores, or factories, have similar arrangements. In this way, the owners tend to develop a 'governance system' based on trust in a decentralized business structure. The ultimate outcome could be same as in the above category, i.e., to generate positive financial results minimizing frauds and misuse of funds.

Family management at non-managerial level

Family members' involvement as non-managerial workers was also seen in the cases. Although they work in non-managerial capacity their kinship to the owner as well as to the business appears to be much closed. This is more likely due to their blood or family relationship with the owner and close link with the business. It was also evident that family involvement at non-managerial positions is due to specific purpose (e.g., to train them into managerial positions or because these positions are very important to business) or just to provide them an employment (e.g., to help the relatives by providing a job). Based on the purpose of employing family members in the non-managerial capacities, their involvement in non-managerial level can be divided into two, namely serving in significant positions and non-significant positions for the purpose of the study.

Significant positions

Bearing significant non-managerial positions in the business by family members tend to occur either because the owner wants to train these family members into managerial positions in the future, or because such positions are very important to the business so that the owner wants to give the responsibility to a close family member. The following views of the respondents suggest that hiring family members in non-managerial positions is due to ensure the continuation of the business in the future, protect the business secrets, maintain trust and minimize risks for fraud.

'My first duty in this firm was to welcome the customers. Then, I was asked to attend for matters with outside suppliers. After that my brother (owner) asked me to learn about eye testing which is an important part in this industry. I had to learn by observation first. Then, he directed me to follow a course on eye testing. He wanted no body to train for eye testing but me and my other brother. My brother believes that if somebody will be hired for this position there is a risk as it is likely that they will join another firm or start up with an own business. That is why he never gets outsiders involved with eye testing as it is a very important position in the optical business. (Respondent - FE, Case 04)

'Handling of money in operational level in the business is important. Therefore, most of the time, the cashier position of our business is reserved for a family member or at least to a close relative. For example, the cashier in the shop at Ambepussa is one of my daughters-in-law'. (Respondent - FE, Case 03)

Serving family members in significant non-managerial positions in the business was common in all four cases, but at different levels. For example, there are many family members employed in the non-managerial capacity in Case 02 whereas only few family members have been employed in this capacity in Case 04. Nevertheless, all these evidence support the notion of stewardship theory that managers and workers are trustworthy custodians of the owners' business and wealth.

Non-significant positions

The family members bearing ordinary positions were also visible in the cases although such positions seem nothing to do with governance of family businesses. Such engagements were seen despite their very close kinship with the family business. For example, these family members represent the nuclear family in some instances. The positions which the family members hold include from laborer positions to skilled workers, and in some cases they have been working in the same capacity for a longer period. Respondent - FE of Case 04 commented,

'There are some workers in this factory who have closed kinship to us. But they all work for a salary and do not hold managerial capacities. Some of them are actually good skilled workers. Also, most of them have more than 10 years of experience in the business'.

This respondent, who is the owner of that business, stated that kinship is not really a matter even though they are a family business. Also, he does not seem to have a concern of family members being serving in the capacities of minor workers in their business. However, he agrees that relatives play a significant role in their business even at non-managerial levels. This view shows the high degree of involvement of family members in managerial as well as non-managerial levels of the family businesses.

VI. CONCLUDING REMARKS

This study analyzed the ways in which family power influences governance of family businesses by investigating four case studies in Sri Lanka. Following the notions of agency and stewardship theories, this study identified two significant variables, namely family ownership and management, which influence the degree of governance of the family businesses. In the empirical investigation, it was found that these two variables influence greatly on the level of governance of family businesses. It revealed that family ownership and management influence the governance of family businesses in numerous ways, and determine the degree of family power in family businesses. The family ownership is likely to influence the level governance of family businesses depending on whether the business is owned by single person or multiple persons. The strategic direction of the business seems to be provided solely by the owner of the single owner businesses, but, in multiple family owned businesses, it is more likely to be shared.

The family management also plays a significant role in the governance of family owned businesses. It was revealed in this study that the level of involvement of family members on governance vary based on the extent that family members represent at the directorate, managerial and non-managerial levels of the family businesses. The study found that family members have been served as nominal, voluntary and appointed members at the directorate. Further, family members work as functional and branch managers in the four case studies with their involvement at the managerial level. Finally, it was evident that family members also serve in non-managerial capacities assisting the governance of the family businesses in some ways. Such roles have been classified as significant and non-significant positions depending on their ability to influence the level of governance of family businesses. The ways in which family power influences the governance of family businesses are illustrated in Figure 1. Overall, this study found that family power influence significantly in various ways in the governance of family businesses. However, the nature and the extent of such influence may vary from one case to another depending on the business context.

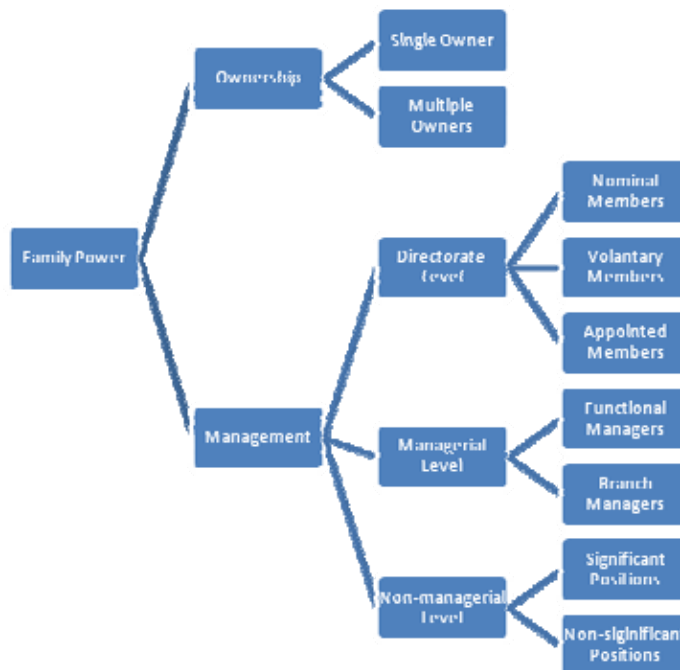


Figure 1: A Diagrammatic View of the Family Power in Governance of Family Businesses

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