

The Family Business: From Corporate Governance to Performance Outcomes

المؤسسات العائلية : من أسس الحوكمة الى تحقيق افاق الأداء

Madjda Lina MEHTARI¹, Cherif LAHLOU²

¹ Doctorate, University Oran 2 Mohamed Ben Ahmed, REFEIRI, Algeria,

mehtari.madjdalina@gmail.com

² Professor, University Oran 2 Mohamed Ben Ahmed, Algeria, cherif.lahlou@gmail.com

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Abstract :

The governance system in family businesses is composed of two subsystems: the family and the business. It follows a dual logic: ensuring the performance of the entity while strengthening family ties. The goals pursued by these businesses are both financial and non-financial, going beyond mere economic objectives by placing strong emphasis on criteria related to family members. Using stewardship theory and resource-based theory as frameworks, this paper analyzes through a questionnaire-based study the moderating role of the family dimension in the relationship between governance structures and business performance.

Keywords : Family business, family, corporate governance, performance

Jel Classification Codes : L25, L2, J12, G34.

ملخص :

نظام الحوكمة في المؤسسات العائلية يتكوّن من نظامين فرعيين مترابطين: الأسرة والمؤسسة. يعتمد هذا النظام على منطق مزدوج يتمثل في تحقيق أداء فعال للمؤسسة من جهة، وتعزيز الروابط الأسرية من جهة أخرى. تسعى الشركات العائلية إلى تحقيق أهداف مالية وغير مالية، تتجاوز الأبعاد الاقتصادية التقليدية لتولي اهتماماً خاصاً بالمعايير المرتبطة بأفراد العائلة. انطلاقاً من نظرية الحوكمة القائمة على الأمانة ونظرية الموارد، يهدف هذا المقال إلى تحليل الدور المعدّل للبُعد العائلي في العلاقة بين هياكل الحوكمة وأداء الشركات، وذلك من خلال دراسة ميدانية.

كلمات مفتاحية: المؤسسات العائلية، العائلة، الحوكمة، الأداء.

تصنيف JEL : L25, L2, J12, G34.

¹ Corresponding author: Madjda Lina MEHTARI, e-mail: mehtari.madjdalina@gmail.com

INTRODUCTION

Driven by growing interest, family businesses are attracting increasing attention from social science researchers as well as professionals. They represent fertile ground for various reflections. This importance stems from the fact that these businesses significantly contribute to the GDP, as they constitute the vast majority of companies in a country and play a significant role in the economy of most countries around the world.

However, to succeed, any organization must establish a generic framework for its decisions, whether they are in the long term or in the short term. To achieve this, it is necessary to understand its real functioning. Usually, the global system is referred to as corporate governance.

Corporate governance is the result of the need to reconcile several, sometimes opposing, interests within companies. It presents various measures meant to bring the interests of stakeholders within the company closer together to achieve better performance.

Performance analysis is one of the priorities for businesses, regardless of their size or sector of activity. Family businesses are confronted with the evolution of the economic and institutional environment. To survive, grow, and develop, they must introduce innovative approaches to maintain and strengthen their performance.

To analyze the performance of a company, two approaches can be used: studies that only consider performance through the financial lens and research that takes into account broader aspects.

Our contribution aims to establish an overview of the family business and its prospects while highlighting the role of family presence in corporate governance by answering the following question: What is the influence of the family-based nature on the relationship between governance and performance in a business?

To shed light on this issue, these following hypotheses have been raised:

H1: The link between governance and performance would be stronger when the business is family-owned.

H2: The presence of the family in governance would positively influence the company's performance.

The structure is as follows: a literature review dedicated to identifying the dimensions of governance and performance in family businesses will be covered in the first two sections. Then, the third section will present the case study, the chosen methodology, the description of data, and the results obtained. The final part is devoted to the conclusion and proposing perspectives for potential future research.

1. Governance Aspect of Family Business:

1.1 On Family Business:

Research on family businesses spans economics, management, law, psychology, etc. This is due to its diversity and the fact that it is multidisciplinary. Representing the most common form of private initiative, family businesses account for between 65% and 90% of businesses worldwide. In Algeria, this percentage rises to 95%. They transcend all business sizes, ranging from small regional craft activities to large enterprises with international aspirations.

According to some authors, a family business is "any business whose strategy and functioning are influenced by a family, which is explicitly or implicitly involved in decision-making." (WARD, et al., 1987), (POZA, et al., 2010). And other authors say that a business is considered family-owned when "the family group holds more than 50% of the shares of the firm." (CHARREAUX, et al., 1989). This second approach is linked to the fraction of capital and shares owned by the family in the business. The reviewed studies show that there is no consensual definition of family business (Mesnik, 2023).

The debate on family businesses is rich in its specificity, where two universes confront each other: that of the family, where affection prevails, and that of the business, which is expected to be rational. The coexistence of these two can lead to conflicts that often threaten the prosperity of the business and impact its performance. The manager must have the confidence of the stakeholders to align their interests towards a common goal.

To achieve this, they put in place appropriate governance plans for managing the firms.

1.2 Corporate governance in Family Businesses

Some research focuses principally on the corporate governance in family firms, because of the type of businesses that are run differently from others. In family firms the boundaries between family roles and business roles are often blurred, leading to complex interpersonal and organizational dynamics. Such businesses are sometimes headed by the owner-manager themselves (Salloum, et al., 2019), making the scenario entirely different.

That is where stewardship theory comes in (DAVIS, et al., 1997). Unlike agency theory it assumes that people will act at all times in their own interests and must be managed. Stewardship is founded on belief in people. The stewardship theory suggests that the leader, especially in the case of the family business, actually wishes the best for the entity. It is an extension of themselves as individuals and their family as well, so it is cared for out of loyalty and long-term visions. So, the corporate governance became more collaborative because the leadership style encourages participation and shared decision-making.

That alignment of interests creates an environment of teamwork rather than supervision. It shifts the focus away from controlling towards supporting.

And it is exactly the identity of family businesses. Intimacy between the business, the leadership, and the family creates in them a kind of shared trust and sense of purpose. Where this works, it can lead the business to function better, become increasingly robust, and be more resilient and performant in the long term.

2. The Specific Character of Performance in Family Businesses

2.1 Insight Into Performance

Performance is a term that can be found in numerous fields. It has different origins, but it typically refers to the concept of achievement, the successful accomplishment of an objective or task. In economics as well as business administration, the term is more complicated and quite often has different uses. In this particular field, it tends to be used to describe success, quantified in terms of the outcomes achieved, whether it is in terms of a company, an employee, or a procedure.

Two main qualities are usually applied in assessing the performance of a company: effectiveness and efficiency. Effectiveness accounts for how effectively a company achieves its objectives, basically, the productivity or output versus the planned objectives. Efficiency is how effectively resources are utilized in achieving such outcomes: the proportion of what is outputted versus what is consumed (ISSOR, 2017).

Generally, performance is associated with an organization's capabilities, structure, and how it goes about achieving its objectives. It is not merely about outcomes, but how the outcomes are reached as well.

2.2 Family Businesses Functioning

Studies indicate that family businesses tend to outperform non-family businesses. An explanation may be the high overlap between two social systems, the business and the family, that support and reinforce one another (ALLOUCHE, et al., 2000). Such "superior performance" is in accord with the resource-based view (RBV) theory, which emphasizes the distinct internal resources of the family business (BARNEY, 2001).

The RBV framework assists us in identifying what differentiates family businesses, especially how different members of the same family can affect the management and governance structure of the company that creates unique internal resources. These can include the loyalty and dedication of the family members, values shared among the family, close internal relationships, as well as an entity culture strongly based on the identity of the family.

Surprisingly, such resources are frequently not related to finance, but they do have a significant impact on driving the strategy and influencing day-to-day decision-making. They are intangible assets that enhance the long-term success of the company.

2.3 Governance Aimed at Performance

It is the connection between business performance and governance that prompted our initial curiosity in the first place. A cursory examination of the literature reveals opposite views on the issue. There is no evident relationship between performance and governance in some studies. Some of them states that the effectiveness of the governance system is measured based on whether it directs the company towards improved performance. And also, there are other writers who claim that there is indeed a beneficial effect of governance, whose findings support resource-based theory in that it perceives the corporation as a resource base whose performance is enhanced with proper management based on effective governance and clear guidance.

(SATEU , 2021).

3. An analysis of governance and performance in family firms in western Algeria

3.1 Methodology

Even while extensive literature exists for the subject, the relation between governance in family businesses and performance remains yet to be unambiguously confirmed. The purpose in this context is to chronicle Algerian family firms practice in this direction. The purpose is mostly to determine how the family nature affects governance and performance in family businesses.

This research examines primary data collected for specific information about family businesses. Its emphasis is largely placed upon non-financial performance as well as governance of firms. For best effect, any data collected in research should be high-quality, objective, and accurate. In achieving this, we utilized data collection through survey-based research. Our questionnaire-based study, informed by existing literature, was distributed to businesses in our sample either by email or in person, depending on available opportunities. So as to ensure valid responses, we contacted nearly exclusively at the senior level of management, CEO, and director/manager. The questionnaire for the survey falls into three categories, interchanging closed and open questions. In the initial part, the family nature and identity of the enterprise are established through data collected about the size, age, industry, and proportion of ownership of the enterprise by the family. The second part examines family business performance. In conclusion, part three examines governance aspects of such businesses.

The sample we used included 35 family business firms in western Algeria, in different industries. With constant follow-up, we were able to achieve 21 filled-in questionnaires, an overall response rate of 60%. These were companies confirmed to be family businesses.

In order to be called family businesses, those firms needed to fulfill at least two of the following criteria:

- The company is at least 50% owned by the family.
- The family occupies leadership roles and shapes company strategy.
- There exists a desire to hand over the business to future generations.

On the basis of the stated criteria, we kept 13 companies with 100% family ownership, corresponding to a response rate of 37.14%. Yet, this sample can in no way be said to be representative of all Algerian family businesses. We therefore regarded it as a convenience sample, enabling us to direct our hypotheses and obtain the necessary and relative information concerning the typology of businesses that fall within our area of study. In our attempt to ensure our respondents' anonymity, we used acronyms to mention businesses. Briefly, what follows represents an overview of businesses studied:

Table 1. The Companies Studied

Companies	Sector of activity	Year of establishment	Percentage of Family Capital
RABH	Agri-food Industry	1964	100%

MEQ 1	Mechanical industry	1987	100%
GLACE	Agri-food Industry	1989	100%
BENZ	Miscellaneous Industries/Cardboard Packaging Manufacturing	1996	100%
BUR	Miscellaneous Industries	1999	75%
ACEN	Building Materials and Public Works Industry	2003	75%
CPG	Mechanical, Metalworking Industry	2003	75%
MEQ 2	Mechanical Industry	2005	100%
MAC	Building Materials & Public Works Industry	2006	75%
EUAA	Miscellaneous /Handicraft Industry	2009	75%
LD	Miscellaneous Industries/Detergent Production	2009	100%
BS	Building Materials and Public Works Industry	2012	75%
SF	Miscellaneous Industries	2019	100%

Source: Developed from the results of our questionnaire

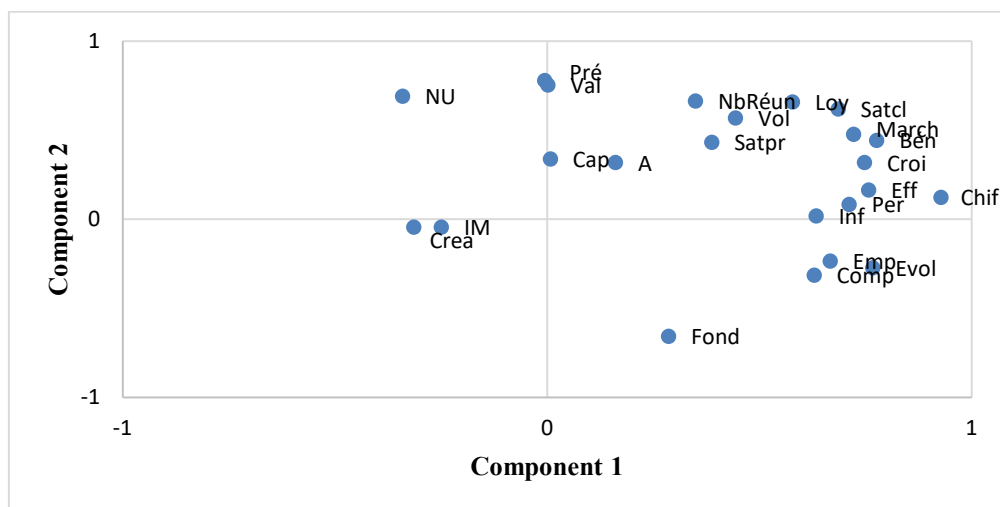
3.2 Result

The research is structured upon the following variables: corporate governance and non-financial performance. The aim at this point is to explain the interrelationship of the variables using the following ways:

3.2.1 Data Projection

The information gathered using the questionnaire and applying SPSS enabled us to achieve the factorial maps of variables for all companies involved in our research (Figure 1, Figure 2). This graphical software generates more accurate results for multivariate analysis. This facilitates the possibility of representing variables and observations as points in high-dimensional space. Variable projection leads to easier visualization of correlations found using the information gathered.

Fig.1. Factorial Map of Variables



Source: Our elaboration using SPSS software

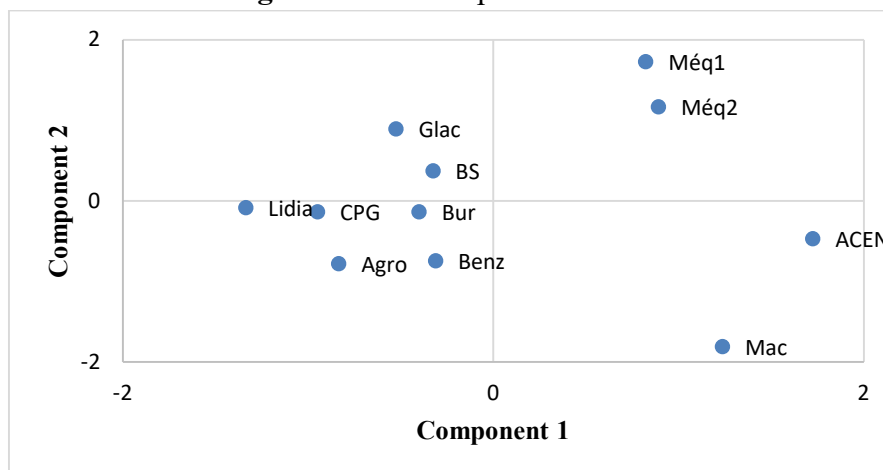
This initial figure illustrates axes that summarize the information in variables and aid in developing the components. Where they are placed in the map shows how variables relate to one another.

The position of the turnover, profit for each year, workforce development, firm growth, and market share suggests that they correlate among themselves positively and have an active variable, which is performance. Looking at their dimensions, we see that they symbolize variables positively and actively correlated to component 1 (horizontal axis). This can explain 30% of the variation globally and therefore explains quite a large proportion of variance. Alternatively, an increase in the quantity of units is moderately and negatively correlated to component 1, and although it is not used in constructing axes directly, it still must be projected in order to provide an interpretation of the outcome.

Component 2 (vertical axis) is defined by an inertia rate of 21%. We have, in decreasing importance, as active variables: the concern of the business's family members, the existence of the founders in the company management, and the frequency of meetings held each year. They are part of the governance variable. We can see that those data, related to the existence of the family within the company, have an extensive representation and are strongly and positively related to the second component, e.g., the existence of founders and the care of family members for the future of the company.

Others have negative connotations, such as employee strength at the startup date. In fact, this variable's association with the second does not explain any meaningful variance.

Fig.2. Factorial Map of Individuals



Source: Our elaboration using SPSS software

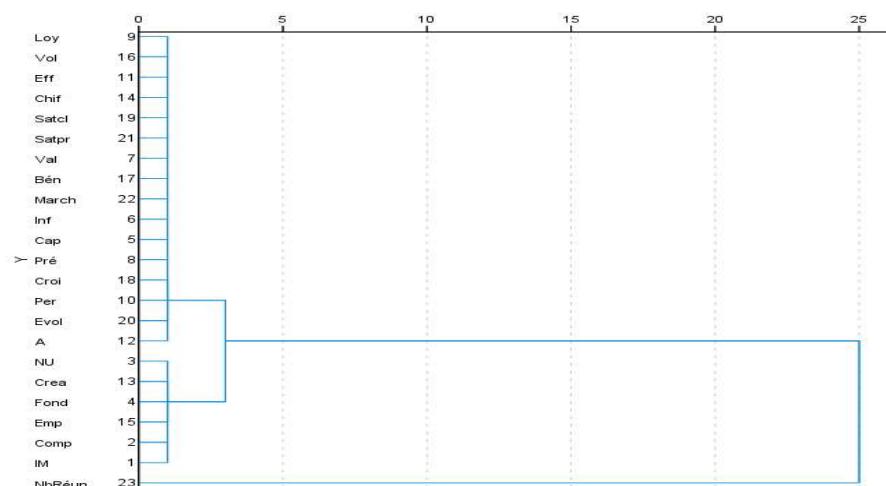
Figure 2 enables us to categorize the similar companies in our investigation. We would prefer to align the two maps (variables and individuals) by superimposing them so we can see what tends to covary together and what contrasts each other in terms of elements. We have selected points that contribute maximally to those discussed earlier principal components. The result indicates that ACEN, MAC, MEQ1, and MEQ2 have an important and positive impact on Component 1. These reflect the proportion of data explained by this component. It can be noted that this component explains the greatest proportion of variance. These firms plot in the same direction as company growth, turnover, sales volume, and customer loyalty, indicating a strong positive relationship.

Conversely, businesses BENZ, BUR, and GLAS have a moderate level of contribution. Similarly, businesses comprising Component 2 include MAC, MEQ1, MEQ2, and GLAS and also show high positive correlation. These businesses play an integral role in outlining Component 2 and are characterized by their interaction with variables such as shared family values and the number of meetings convened. In other businesses, variances were viewed as moderate and used illustratively.

3.2.2 Data Projection

The following graphs illustrate the hierarchic grouping (clustering) of our data. They show dendrograms, which allow us to analyze similarity measures and Euclidean distances between all studied variables. Ideally, such groups should have low distances and high similarity

Fig.3. Dendrogram of variables

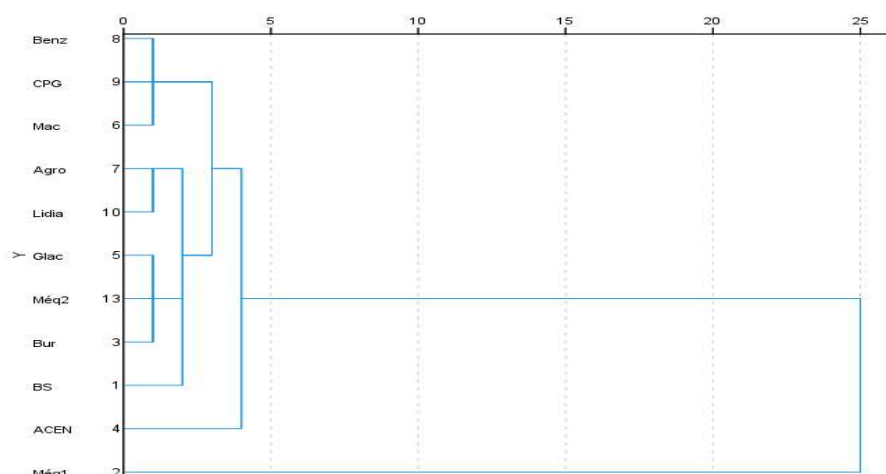


Source: Our elaboration using SPSS software

This figure represents a further subdivision into three categories. It enables us to see the links (or nodes) within each set of variables. The height of each branch corresponds to the level of similarity or dissimilarity between the groups.

- The first set includes 16 data points related to performance, such as customer satisfaction, annual sales volume, and business growth.
- The second set comprises 6 variables reflecting the presence of family within the business.
- Finally, the third group, made up of 7 variables, emphasizes the distance and notable differences that exist among them.

• Fig.4. Individual's factorial map



Source: Our elaboration using SPSS software

Figure 4 presents a hierarchical tree that groups companies based on how similar or different they are from one another, taking all variables into account. Most of the companies in our

sample appear close to each other in this structure, which suggests they share several key characteristics.

At the top of the hierarchy, two main groups emerge. One of these is further broken down into smaller clusters:

- The first subgroup brings together **BENZ, CPG, and MAC**, which show strong similarities.
- The second subgroup splits again into two more refined groups:
 - One includes **RABH and LIDIA**.
 - The other is made up of **GLAC, BUR, MEQ 2, and BS**.

Interestingly, **MEQ 1** stands apart from the rest. Its position in the hierarchy indicates a clear dissimilarity compared to the other companies in the study.

It's also important to highlight that **EUA, ET, and SF** were not included in the projection. These companies either did not consider the variables analyzed or lacked a structured governance system altogether. In many cases, corporate governance was absent or only minimally applied.

3.3 Discussion

The results from the data analysis reveal the connections among the performance variables and the corporate governance variables. They enabled us to grasp the relationship involving the different dimensions of two key components: the company (component 1) and the family (component 2).

Figure 2 illustrates a strong link between annual profit and revenue. These two elements not only indicate a positive correlation among the financial aggregates but also reflect the company's resilience. In addition to these financial indicators, the company's growth influences non-financial aspects such as employee satisfaction and the internal social environment, which in turn reinforces customer loyalty. This highlights the positive correlation of these variables with both company-specific and family-related factors.

Our analysis shows that several factors, in interaction with the family nature of the business and the involvement of family members in governance, influence both performance and governance. This involvement enables consideration of both financial and non-financial aspects of business performance. It reinforces the connection between governance and the performance of family businesses.

These findings support the principles of resource-based theory, which views the family as a unique resource that aligns governance with performance through its presence. Based on our results, the family emerges as a fundamental element. Among the resources specific to family

firms discussed in the literature (Labaki, 2019), our sample highlights the link involving family members' involvement and the shared values among them within the business.

Another challenge that the results show is the low level, or even non-existence, of conflicts. Such a factor leads to lower agency costs and better performance due to the positive internal environment created by open and fluid communication among the multiple players. Meckling et al.'s findings are backed by the fact that just one family owns and runs the business (1976), who argued that agency costs within a family business are generally low. This setup classifies people and materials in a way that all actors and interested parties can agree on, reducing frictions and maximizing synergy.

As a result, communication and information sharing between stakeholders is more seamless, driven by their mutual connection and shared objectives. This aspect becomes particularly meaningful when examined through the lens of stewardship theory. According to this theory, the objective of family business management extends beyond profit maximization or the personal reputation of individual economic actors; it aims to distribute the created value more equitably among all stakeholders.

Our questionnaire results show that some managers are motivated by a strong entrepreneurial drive, leading to the establishment of new units within certain companies. However, this expansion strategy is not always well accepted by other family members, as evidenced by a negative correlation between the number of business units and component 1. The more units a company has, the more the owner-manager must delegate responsibilities, and when the appointed managers are not unanimously approved, this can trigger conflicts or tension among family members.

Additionally, the study reveals another significant point: the altruistic behavior of the owner-manager can negatively affect company performance and governance, as illustrated in Figure.1 by asserting himself in the leadership and strategic direction of the company, the founder tends to minimize the concerns and involvement of other family members.

While it should ensure the cohesion of all family members to achieve good governance that aligns the interests of the various members of the company, this will lead to improved performance, as in the example of MEQ1.

Conclusion :

The objective of this article was to demonstrate the moderating role of family ownership in the link between governance and company performance.

In order to develop useful paradigms that help understand the characteristics of these companies, a theoretical approach was necessary. The use of a descriptive analysis yielded results confirming the hypothesis that family influence modulates the link shared by governance and company performance.

Most studies approach performance through a financial lens. Our less orthodox approach offers a more contingent view. Presenting the notion of performance in a broader form, based primarily on non-financial indicators, allowed us to highlight the influence of family ownership on performance.

The case of the companies studied in our sample leads to the conclusion that the family is considered the glue that binds the company together. This is how family members find themselves between the ownership and management of their organization. This interface creates both formal and informal aspects. The governance system within these companies must address clearly established relationships known to all stakeholders (formal aspect) and family relationships that allow easier access to information (informal aspect).

In this context, the effectiveness of a governance system is assessed solely in terms of its ability to drive company performance.

This study, while producing conclusive results, is a first step in understanding this type of company and clarifying the factors that determine their governance and performance in our national context.

However, it does have certain limitations. First, our sample size does not allow us to examine the various possible cases, which undoubtedly limits the generalizability of the results. Second, the study focused on only one region: western Algeria, even though Algeria is a vast country with rich cultures and traditions. This may have an impact on the company's governance style. Thus, we cannot claim to generalize the findings to all Algerian family businesses.

Despite these limitations, this research highlights future avenues for reflection. Indeed, the concept of a family business changes depending on whether the capital and management are family-owned or not and whether management is entrusted to a manager outside the family.

This observation allows us to distinguish two types of family businesses based on whether the manager is a member of the family and their level of involvement in the company's performance and governance. This line of thought offers another perspective concerning the impact of the

integration of an external (non-family) manager and its influence on the performance and governance of the family business.

Bibliography List: