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Challenges in Implementing Corporate Governance in Family Owned Enterprises (FOE) In Zimbabwe

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Abstract: Corporate governance has evolved over time although much attention of it has been given to large-scale enterprises at the expense of small- scale enterprises despite immerse economic contributions. Corporate governance is concerned with relationships between management and board of directors in the process of wealth generation. Literature on this discipline is abundant but does not focus attention on the Family Owned Enterprises. Literature indicates that family businesses do contribute to the GDP of many economies in the world. Survival of modern businesses is also anchored on good corporate governance. The study drew its roots in the stewardship theory of corporate governance. A qualitative research philosophy informed the study. Research design adopted was the narrative inquiry, which allowed the researcher to deal with stories of the informants regarding challenges in implementing corporate governances practices in FOE. To get rich information about this, purposive sample was drawn from the population. The study established that the main challenges in implementing corporate governance practices in FOE are rooted in the lack of succession planning and the Principal Agent phobia. It was recommended in the study that FOE should develop succession planning and appoint Family Advisory Boards (FAD) to assist in the corporate governance practices in the dynamic business environment.
Keywords: Corporate governance, family owned enterprises, implementation, challenges.

INTRODUCTION

Development of corporate governance is attributed to the work of Berle and Means way back in 1932. The thrust of this important piece of work to the development of corporate governance was on the separation of the legal ownership and management of enterprises. The separation of the two drew up a particular distinctive dichotomy of duty between the two poles in governance of enterprises. Relationship that exist between legal owners and managers of enterprise requires a perfect fit and hence the need for developing corporate governance system that directs the way enterprises are governed to limit the risk of business failure and abuse of enterprise resources.

Corporate governance is increasingly becoming a global phenomenon, which is continuing to attract the attention of business, academia, and media. You read in newspapers about the companies or individuals who are not acting according to business ethics standards. Researchers such as Charlton and Lau [1] have established a strong positive relationship between good corporate governance and sustained business and economic accelerations. As the world is changing, it is becoming more acceptable that corporate governance is an essential building block of stable economies. Corporate governance helps to protect the rights and interests of the shareholders by seriously providing a framework for effective monitoring of management action and performance in the competitive business environment. Umrani, Johl and Ibrahim [2] opined that the success of an economy is dependent on the good corporate governance of the enterprise operating in it. Without well-governed enterprises, it will be difficult to catapult the economic activities of a country. This is why many countries of the world today are relying on the emergence of the small-scale enterprises to supplement the efforts of the large-scale companies in improving standards of living of the general populace of a country. Success of any enterprise despite of size is dependent heavily on the emancipation and unfolding of corporate governance in such enterprises.

Zimbabwe is a country that is characterised by different sized enterprises. The range of the businesses starts from the Family Owned Enterprises (FOE) to very large corporations managed on professional basis.

However, the contributions by the FOE to the economy are significantly important, because FOE form the foundation of the transfer of skills and knowledge for business management to the other sizes of the enterprises in the country. The FOE plays a very important role in employment creation and nurturing the ability of an individual to becoming a groomed entrepreneur. Economic acceleration in such a developing economy is anchored on the ability of the FOE to survive and operate in perpetuity. The FOE contributes significantly to Gross Domestic Product and employment in cases where formal employment is subdued. For the FOE to grow, develop, and contribute meaningfully to the economy there is need to emphasis the issues of corporate governance in these kinds of enterprises.

Today Zimbabwe is facing high development of the FOE depicted by the mushrooming of many traders trading along streets and pavements in front of big shops in towns and cities and even in Growth Points (Semi-Urban rural business centres). The rapid growth in these enterprises automatically triggers the need to provide a specific type of corporate governance, which fits FOE as it, represent a significant tissue of the Zimbabwean economy. Yap and Ng [3] argue that effective corporate governance system is applicable to FOE to ensure long-term performance and to advance them into socially responsible contemporary institutions. Corporate governance is advantageous to the FOE for the fact that it provides owner-mangers the opportunity to enhance transparency and disclosure of information that lead to increased sustainability of enterprises in times of crisis.

Literature is abundant with corporate governance issues [4, 1, 5-7] that relate to corporate governance framework developed for large corporations ignoring the small-scale enterprise sector. Such frameworks for corporate governance in large-scale enterprises may not reflect the correct position of corporate governance in FOE. In large-scale enterprises, there is a clear line of division between management and owners of the enterprise. On the other hand, in FOE, owners are often the managers and corporate ownership is not by shareholders but by share across family members. It will be very difficult to compare corporate governance in FOE and large-scale enterprises. Umrani *et al*. [2] and Sarboh and Xiao [8] argue that given the desire of every company whether small or big is to achieve the stated goals, makes corporate governance a relevant aspect to enterprises of all sizes although the nature of corporate governance applied varies from one enterprise to another. Corporate governance in large-scale enterprises is associated with the Agent- Principal problem where managers or the Chief Executive Officers act as agents for the principals who are the owners of stock. In this case, corporate governance becomes a system used to control management actions to act in the best interests of the shareholders. In that order, corporate governance in large-scale enterprises is meant to help managers focus their attention not only on shareholder interests but also on the broader spectrum of stakeholders such as employees, suppliers, wider societal issues relating to appropriate stewardship of environmental assets.

Family Owned Enterprises are a bit different from the large-scale enterprises. In FOE the Agent-Principal problem is less likely to be significant. The case in point here is that in FOE owners are more often than not the owners of the enterprises. In such situations where owners are the managers, management and ownership interests are likely to be aligned than in the case of large-scale enterprises. The problem remains that the interests of management and ownership are not the interests of the other stakeholders. In such circumstances FOE, the major purpose of corporate governance remains solely that of how to improve business efficiency and performance to achieve profit maximisation goal. One needs less or no effort on monitoring the actions of management because of the absence of the Agent-Principal problem in FOE.

Bennet and Robson [4] argue that there are limited studies in governance issues for the FOE as small-scale enterprises. Examining corporate governance codes befitting the FOE remains critical from the context of a developing country like Zimbabwe. Hence, the objective of the study is to bridge the research gap on the challenges of adoption of corporate governance by FOE in Zimbabwe.

STATEMENT OF THE PROBLEM

Corporate governance is viewed as a system of controlling management in their pursuit of directing the activities of an enterprise in order to satisfy the interests of both stockholders and stakeholders. The basic reason for existence of the enterprise whether small or big is to preserve and enhance investments that created them not only in the short run but also in perpetuity. Good corporate governance contributes to success of enterprises. It is therefore in the interest of the current study to investigate the challenges faced by Family Owned Enterprises in implementing corporate governance in the dynamic business environment.

RESEARCH OBJECTIVES

The investigation was guided by the following research objectives:

- To establish whether family owned enterprises have a succession plan at hand.
- To examine the challenges faced by the family owned enterprises in implementing corporate governance.

RESEARCH QUESTIONS

The following research questions were used to guide the study to establish the challenges that are faced by family owned enterprises in implementing corporate governance:

- Do family owned enterprises have succession plan for continuance of business?
- What are the challenges faced by family owned enterprises in implementing corporate governance?

Significance of the study

Corporate governance implementation is critical in most of the contemporary businesses. Evidence of the importance of corporate governance is on the ability of the enterprise to perform better if it implements corporate governance is its basket of firm activities. The current study is aimed at benefiting the small-scale businesses owned by individual families. The FOE can benefit from the study by implementing corporate governance, which is now being used as a tool that is used to source funds for business expansions. In addition, the government may take a leaf from the study in its endeavour to promulgate the business codes of ethics to encompass these small-scale businesses in the debate of ethical business conduct.

Theoretical framework

The landscape of business is fast changing. The competitive business environment is forcing today's companies to try to inculcate the wisdom of good corporate governance in their day-to-day endeavours [9]. Relationships that exist between businesses among stakeholders are increasingly becoming complex and increasingly interdependent. Such complexity of relationships leads enterprises to face unrelenting pressures when making decisions. Issues of corporate governance practices, which are currently, associated with financial crisis in many instances, in business, calls for the intervention of stewardship management orientation, hence the adoption of the Stewardship Theory of Corporate Governance in this study.

Stewardship theory of corporate governance is rooted and anchored in disciplines such as Sociology and Psychology where the definitive roles of steward is to protect and maximise shareholder utility through increased firm performance [10]. In the process, the steward maximises his or her own utility. The steward theory of corporate governance regards stewards as executives of the enterprises performing their duties, roles, and responsibilities on behalf of the shareholders in the quest to increase shareholder value. The IMD [11] said that in stewardship theory, executives of an enterprise are stewards of the owners. What is obviously interesting in the debate of stewards and shareholders is that the theory purports that the two opposing ends, that is, managers and owners have shared goals.

With the above in mind, it indicates that the two sides, managers, and owners of resources are not to be in antagonistic views about the enterprise. To support the synchronicity between these two issues of strong corporate governance have to be in place no matter what. Managers who are the stewards of the enterprise have a duty and responsibility serve the society and their fellow beings [12]. Ethics stress that humans as they are, managers have an obligation to take care for the environment and support business though making effective and efficient use of resources at their disposal. Moral uprightness is highly expected in the discharge of duty. Thus, stewardship theory draws much on accountability to the protection of the assets of the firm in the end. This shows that stewards in the stewardship theory of corporate governance are not self-centred in their interests but identify themselves with business and highly motivated to maximisation of enterprise performance. Key element in stewardship theory is that managers are strongly believed to have a strong conviction of belonging to the enterprises as its most valuable asset, thus possessing the ownership mentality. In response to this, the role of the board of directors would be to provide all the necessary support by empowering the executives, which in turn has the potential of increasing firm performance. The board should therefore, facilitate training, mentoring, and shared decision.

LITERATURE REVIEW

Family businesses, the world over are expanding at an alarming rate. One thing is that the family businesses continue to demonstrate a high level of confidence in times of economic turmoil in Zimbabwe, in their prospects and performance [13]. The forms of enterprises are determined and skilful at navigating through challenges and adapting to market changes because of their soft and flexible style of management exuded by the founding member. Today, there are many family owned enterprises operating in different parts of the country, which have blossomed very much. In all markets, family businesses dominate the bulk of the economy and in terms of numbers of individual entrepreneurs that contribute to the economic and development of a country. Family owned enterprises in Zimbabwe are praised for their ability to scale down unemployment rate that is soaring every day in the country. Sarba and Xiao [14] argue that family business are efficient and prolific in job creation and remain the seedbed or nursery for large companies in terms of skills development in business management, which fuel the national economic engine.

When looking for a suitable definition of family business, which is uniform and standard, in literature, one will soon discover that there are many varied and unresolved opinions in the field of research on family businesses. It becomes obvious that there are many definitions of the term as there are many researchers working on the discipline of family business. However, what are common in most of the workings by different research are the major characteristics of a family business that these attempt to use to define the term although one definition may attempt to place more emphasis on one or more characteristics and ignore the others. A wide range of characteristics researchers have resorted to use to define the term family business include among others family involvement, family ownership, family management, intergenerational ownership transmission and control system in place.

The most commonly used approach to defining family business is using the component of family involvement. This component usually distinguishes family business form non-family businesses [8]. In this approach, the primary characteristic that categorises or classifies a firm into a family business class is the presence and existence of the family's involvement in the affairs of the business that is measured by the influence of the family on business through resourcing or investing in it, ownership, and governance. Mazzi [15] argued that the influence of the family on ownership and governance is more pronounced in family business than in non-family businesses. Following the above argument, it can now be easier to derive a working definition for the term family enterprise or business in this study. Family business can be defined as those businesses whose ownership and governance is in the hands of the family, which have a willingness to transmit the ownership of the enterprise to the next generation. The founder of the business assumes charge of business making all necessary and important decisions ranging from finance, human capital through to business location decisions.

Corporate governance has received attention for a long time but in different ways and boundaries of the discipline is intensively wide. The concept has been a preserve for the large organisations with little attention starting to focus on small-scale businesses like the family enterprises despite their immerse contributions to economic emancipation. Several aspects in general of the firm influence growth and performance and one of them is corporate governance. Incorporation of corporate governance in the management of the small-scale business has a chance of improving their outlook in terms of business. Family enterprises have to adopt governance systems that allow them to separate ownership from management by way of paving for the appointment of board of directors to regulate the operations of legitimatised management. The purpose of such a move is to dilute dependency of the enterprise on the sole energy of the founder. Division of labour depending on experience and expertise is emphasised in the separation of ownership from management. Again, such a dichotomy would allow the founder to have more time on supervising the executive officer mandated with the legitimate power to run the organisation.

However, there area of corporate governance is broad and complex when dealing with the family business. Corporate governance generally covers issues of control and interest dichotomy between management and owners and attempts to find ways of aligning both sides' interests. By way of definition, corporate governance is concerned with the configuration of control mechanisms that are put in place to limit occurrences of potential conflict of interests between management and stockholders. A missing link seems to exist in the family businesses in that as much as we talk about control in the large corporates to reduce potential conflict of interests, this issue seems to be absent in family businesses. Song [5] and Lappalain and Niskanen [16] argue that poor corporate governance systems contribute to the unsuccessful continuance of many family businesses. Good corporate governance is good bait for attracting investments in any business because lenders would want to do business with honesty and morally upright business entities. Dube, Dube and Mishra [17] opined that for the firm to improve in its performance, compliance with corporate governance plays a crucial role in that.

RESEARCH METHODOLOGY

With current trends in research experiencing a paradigm shift from the positivism perspectives to clearer ways of gathering and analysing data, the current study is premised in the qualitative research philosophy. Qualitative researches are powerful in the way they generate data from the research informants who actually participate in the research process. Qualitative data that might be difficult to account for in quantitative research thus find an opportunity to be processed and interpreted qualitatively. In qualitative research paradigm, there are several research designs that can be used to guide the study. In this study, the narrative inquiry design was used.

RESEARCH DESIGN

The current study used the narrative inquiry as its research design. Use of narrative inquiry is a break away from the dominance of positivism towards interpretivism, which has a renewed attention to human impulse to narrate because they participate in research as actively as possible narrating their stories. Hunter [18] argues that narrative inquiry is gaining momentum and acceptance both as a phenomenon and a method across a wide range of disciplines including Entrepreneurship and Business Management. The theoretical under-pinning of narrative inquiry is the belief that humans live a story telling life about their actions and choices, which have integrally moral and ethical dimensions. Spencer- Oatey [19] advocates that narrative inquiry is widely used in qualitative research method because the research design has emerges as a panacea to the shortfalls of quantitative research design that ignore qualitative data in the process of research. Narrative inquiry has the potential of yielding contextually rich information that reflects real-life experiences of the research informants, in this case the owners and managers of the FOE. Bense [20] pointed out that narrative inquiry research design offers a particular approach as research informants are accorded the opportunity to tell their own real-life stories about their enterprises. In the process, narratives hold significant potential for understanding corporate governance in the FOE through a process that sets in motion the interaction of the strange with familiar.

Sample and sampling technique

Sample in research is a portion of a population drawn for a specific purpose of study. To come up with a sample of FOE in this study, the non-probability sampling technique was used. Selection of informants in qualitative research should have a clear rationale and fulfil a specific purpose related to a research question [21]. This is why most of qualitative methods are commonly purposive. Purposive sampling method was employed to come up with the sample for study, which was selected purposively. Purposive sampling entails a purposefully sampling of research informants who are expected to be knowledgeable and have experience of the phenomenon under investigation [22]. In support of the preceding statement, Trotter [23] contributed to the debate by saying that purposive sampling technique that qualitative researchers use to recruit participants who provide in-depth and detailed information about the phenomenon under study. Clearly, it can be regarded as true that purposive sampling uses key informants to generate data.

Purposive sampling, a non-probability sampling method is a mother to many sampling methods that researchers can use depending on the objective of the study. The target of the study was mainly owners and managers of FOE of which six where conducted in the town of Masvingo in Zimbabwe. Owners and managers were selected based on accessibility and experiences in running FOE, thus possessing traits under investigation. Purposive sampling methods comprises of various sampling methods, which include among others critical sampling. Critical sampling is extremely used in studying critical cases where only critical cases are selected and then examined. The guiding principle in critical sampling as a technique of purposive sampling is that concept of generalisation, that if something happens somewhere then it can acceptably happen anywhere else. This is the reason why the researcher used the critical sampling method to come up a sample that could be generalizable in how corporate governance unfolded in the FOE in Zimbabwe.

Data generation instrument: Narrative interview

As the study was premised in the qualitative research paradigm and adopted the narrative research design, the instrument for data generation for obvious reasons became the narrative interview. Narrative interview is a kind of interview that envisages an environment between the researcher and the informants to be free to engage in constructive conversations. In the process of conversation, the researcher should keep the environment around encouraging and stimulating the interviewee to say more about their significant lived corporate governance stories. The basic reason for using narrative interview for data generation in this study was to reconstruct the social business events from the perspective of the informants as directly as possible.

RESULTS AND DISCUSSION

The results of the study indicated that there are several challenges that are faced by the FOE in implementing corporate governance despite the importance of it in the contemporary business management in the dynamic environment, which is highly characterised by stiff competition. Family owned enterprises are an integral part of the cluster of Small and Medium Enterprises, which are always praised for their ability to oil the engine of economic development in any country today. Survival of the FOE remains an important issue that worries many governments both in developing and developed countries. However, what is so threating is their survival chances in the turbulent business environment. Corporate governance practices in companies have helped them to survive long. Therefore, in order to restrain the FOE from collapsing there is need to drum up the ideal implementation of the corporate governance practices. The main issues that were regarded as challenges in the implementation of corporate governance by FOE among others are the lack of ideal succession planning and the principal- agent phobia.

Succession planning in FOE

One of the main reasons for the lack of implementation of corporate governance in the FOE is the unavailability of the succession plan in the organisations. The succession planning is a planning tool that assists the organisation to have focus on the future leaders of it. Such plans may be either in written or unwritten forms. The informants who participated in this study confirmed that succession planning was out of their mind and was not at all necessary as the business is know that it will remain for the family. What is difficult to establish among the family is that actual person who will remain in charge. Will it be the whole family taking charge of the business or an individual? The question remains unanswered as far as succession planning is concerned in the FOE. Informants in this study retorted that:

As long as the founder of the business is alive, the issues of succession planning remain silent. This is only an issue in the case of death of the original founder of the enterprise when the law demands for the heir to the throne of management and ownership.

This was agreed upon by the majority of the informants that succession planning is completely absent in the FOE because when one talks about it in the presence of the founding member it is like you are planning his or her assassination so that you take over the business. Many people fear to talk about it and even the founding member may not be open on who he or she intends to be heir to the ownership and management of the enterprise in case of death. This places the whole purpose of corporate governance into disarray because there is always hide and seek in the cases of heir to ownership and management in the event of death of the founder member of the enterprise. Members of the family may end up wasting time and effort trying to position them strategically to the heir of ownership instead of directing that effort to the main cause of the enterprise. Sometimes the founder member waits for the right candidate to emerge from the family members but time will not waiting to groom the possible candidate into principles of business management for the continuance of the enterprise. Unadkit and Bagdi [24] argued that the tendency by founding owners of enterprise to simply wait for the right candidate to emerge is a dangerous policy. Recent situations in which a sudden departure of the owner of an enterprise though natural illnesses, accidents and other natural causes of death are prevalent and have demonstrated this. Enterprises with immediate successors will not be affected by such sudden shocks of departure of the founding owner and manager.

One of the informants in this study brought an interesting argument to the implementation of corporate governance in FOE. The individual is of the opinion that may be available in the FOE but may not be in written form. The owner of the enterprise may be having a child or wife to become a successor in management and control of the enterprise. The informant had this to say:

I have a son who is doing a Bachelor of Commerce in Business Management with a local university. I am completely pinning my hopes on him to succeed me in business because he is showing interest and knowledge about how to mastermind at business competitively. Since I incorporated him into management tasks, the business is doing well comparatively.

What it implies is that some owners of FOE are now relying on the knowledge and expertise from their children who are in passion of higher education qualifications. Owners are heavily depending on their schooled children, who they trust with management tasks such as accounting, human resources management, marketing and purchasing logistics. At the end of it all, those individuals entrusted with management tasks eventually become owners in the event of death of the original owner. Peters [25] concurs with the above saying that succession planning does not simply means identifying a replacement of the founder member of the enterprise, but anticipating the appropriate candidate with business management competencies who is dynamic and proactive to changes in the business environment. This is so because companies are confronting rapid changes in the form of technological innovations, shifting customer expectations, new competition, changes in public policy and globalisation.

The principal-agent phobia

Contemporary businesses are run based on separation of management from control. Management is responsible for the day-to-day running of the affairs of the company while control is done by a separate group of stockholders who have the responsibility of providing resources to the enterprise. In corporate governance, stockholders control the operations of management in their pursuit of directing the activities of the enterprise for the benefit of both. Informants in this study were of the opinion that management and control are difficult to be separated in FOE. There is high concentration of management and decision making within the family, reason being that family enterprises are highly sceptical to have a board of directors like what large corporations have. To the FOE, it is better if management and control rests under the armpit of the founding member who initially took the risk of investing in an enterprise through entrepreneurial devotedness. When asked whether they were aware of the need of having a functional board, the informants had mixed opinions on that. One of the informants says:

I am aware of the board as I sit in one of the parastatal board. I am aware of the functions and the benefits of the board but I do not have a board of directors in my own enterprise. The reason is that board of directors cause an increase in costs to the enterprise.

From the responses given by the informant it showed that the informant was sceptical about appointing anyone who does not have the history of toiling for the success of the enterprise into the board of directors. It is rather adequate to have the founding member as the highest decision making board in the enterprise than having outsiders. Obviously, the above-referred informant was a groomed individual who command respect in the society to such an extent that is a board member of a parastatal company. It shows that the informant is aware of the benefits associated with having a board of directors such as bringing creativity, innovation, and strategic planning but is reluctant to adopting one of the pillars of good corporate governance practices in the contemporary business environment. The informant sees corporate governance as more inclined to large corporation than FOE.

It can be deduced from the study that FOE owners and managers are aware of the need of having a corporate board of directors as a way of separating management from control. However the thorny issues which make the FOE not attract the appointment of board members is the fear to incur costs of maintaining the board in terms of seating allowances and pecks. Compensation for the board definitely reduces the profit margins of the enterprise if the decision-making aspect remains solely in the hands of the founding member. Another informant referred the need for the appointment of a board to the growth and change in size of the enterprise. According to this informant, "It is only possible for a family business to end up having a board of directors if the business is extremely expanding and now is having the capacity to employ more people. That will now be demanding for the owner to run the business alone even with his own family but to recruit other to assist especially in management." With this in mind, the FOE may find it quite challenging to appoint a board of directors in fear of incurring extra costs that may end up reducing profit margins. Founding members of the FOE would not want outsiders as board of director in fear of the conflict of interest, which they think, is inherent in any case where managers would want to advance person interests at the expense of the interests of the stockholder. Thus, the idea of implementing corporate governance practice by appointment of board of directors in FOE is still a challenge to many of these kinds of enterprises in Zimbabwe.

CONCLUSIONS

The study concluded that the implementation of corporate governance in FOE remains a thing to be reconsidered despite the importance attached to corporate governance for continuance of the organisation in the 21st century. Corporate governance practices are key to business competitiveness. People would want to transact with enterprises that uphold moral standards, integrity, and which are honest and fair. None of these is considered important in the management of the FOE because they regard the preserve of the founder member as the source of resourcing for the firm, which do not need any form of interruptions and disturbances in the running of the enterprise. Succession planning is not part of the FOE. It remains a thing, which held under the carpet until such a time when the owner of the firm is dead then individuals in the family start bickering for the position of ownership and management. This situation stalls progress, as more time will be chewed in trying to resolve conflict between members of the family to take control. Therefore, lack of succession planning and the agent principal phobia are the major contributors to the challenges in the implementation of corporate governance in the FOE in Zimbabwe.

RECOMMENDATIONS

The study recommended that the FOE should have a clearly defined succession plan that is put in place by the founding member in consultation with the family. The individual chosen should have sound business management traits and qualification if ever possible and should have the passion for business. In total, the individual should be a natural entrepreneur who should have developed interest in business management quite a long time getting apprenticeship form the founder member.

It has also been recommended in this study that it is dangerous for FOE to remain without effective and functional board of directors. The next generation of business leaders would want to benefit from significantly from the assistance from skilled executive board members. Therefore, it is befitting that the FOE can appoint a Family Advisory Board (FAD) to assist in implementing corporate governance practices in the enterprises. The FAD should comprise of well knowledgeable, experienced individuals who have a soft spot for the FOE concerned. The members have to be highly committed to seeing the firm growing in all dimensions. In a nutshell the FOE to develop and continue to exist in the current unstable business environment have to grapple with the reason of wanting to improve the implementation of corporate governance stemming from succession planning and issue of appointments of boards to alleviate the principal-agent phobia inherent in these kinds of businesses.

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