CORPORATE GOVERNANCE DYNAMICS IN FAMILY-OWNED BUSINESSES: NAVIGATING CHALLENGES AND BEST PRACTICES

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ABSTRACT

The family business forms part of the economy in different countries and contributes a lot to job creation and growth. Nevertheless, these businesses have to solve a number of special problems connected with the process of corporate management that are unlike those of public and non-family companies. In response to this knowledge gap, this research paper seeks to investigate the nature of corporate governance in family businesses especially for those in the emerging markets and how these differ from non-family businesses. The research methodology employed in the study is doctrinal research; this is because the study relies on the analysis of legal provisions, corporate governance theories and empirical literature on the governance practices in family businesses. It explores the relationship between family and business with regard to governance, decision making and corporate control, it reviews ways in which the mode of ownership affects corporate control structures and mechanisms. Some of the items that fall under governance are succession, family management, and board characteristics and their influence on the performance and sustainability of businesses is addressed in the paper. It is evident from the studies that family-owned business might have a strategic mixture of formal and informal control, of which they both support and destabilize their governance. Besides, the paper aims to highlight the measures that have been adopted and the recommendations made for the improvement of corporate governance structure of family businesses through the analysis of case laws and comparative jurisprudence of different countries. The study builds on the need to establish and design family business governance structures and systems that can meet the unique needs and requirements of the family business entities while seeking to protect the interest of the family as well as running efficiency business operations. Thus, the findings of this study help enrich the knowledge about the patterns in the governance of family business organizations and how such organizations can establish sustainable success and stability in the course of keeping the familial essence of their existence.

Keywords: Family-owned businesses, Corporate governance, Succession planning, Family control, Governance frameworks

1. Introduction

Brief Preview of Corporate Governance Principles

Corporate governance may be described as the structure through which companies are managed and regulated. They include the structures, procedures and relations for the exercise of corporate control and management. Thus, the general aim of corporate governance is to sustain the various interests of different stakeholders in a corporation such as shareholders, managers, customers, suppliers, financiers, government and the society in general. It is necessary to underline that the rules of corporate governance are based on the principles such as transparency, accountability, and equity as well as responsibility.

The key difference between family business corporate governance and that of the non-family business corporations is that in family business corporations it has a different complexion. These businesses are usually dominated by family ownership where members of the same family controls a large percentage of the businesses share capital and some of them actively participate in the management of the business. It is the aim of this paper to highlight how this structure can result in unique governance issues and prospects different from those of the public companies.[1]

Nature and Issues applicable to Family Firms

By this we mean that such a business organization is rooted and controlled by a specific family or several families. It can be a small scale business in a particular country and it also can be multinational business organization. Despite this diversity, family-owned businesses often share common traits:

1. Concentrated Ownership: Most of the companies are owned by the families whereby majority of the stocks belong to the family, this may bring about unity of interest and yet at the same time bring about Conflict of Interests between the family and other shareholders.
2. Family Involvement in Management: When it comes to the management and governance of health care organizations, it is not a secret that members of the immediate family are usually involved. This may results in good decision-making since there is a

[1] Sikandar, S. and Mahmood, W., 2018. Corporate governance and value of family-owned business: A case of emerging country. *Corporate Governance and Sustainability Review*, *2*(2), pp.6-12. https://www.academia.edu/download/74612229/cgsrv2i2p1.pdf

close working relationship and provide insights of the business but it may also poses some problems such as nepotism and lack of professionalism in the management.

3. Long-Term Orientation: Family businesses often have long-term perspectives towards business as against short-term profitability because family business entities have generations' worth of creation and accumulation of family fortunes to guard. This perspective can in fact impact on areas of governance policies for instance in succession planning and strategic management.
4. Succession Planning: Probably the most important issue that is especially relevant for family businesses is the issue of succession. Succession of leadership from generation to generation in family businesses poses a great challenge because of the challenges that come along with family issues and business demand.[2]
5. Conflict of Interest: It is usually evident that there are several issues that may cause conflict of interest within family businesses due to interconnectivity between family and business goals. Fascinating areas like nepotism, intra-family conflicts and tendencies, and impacts of the family members on the business matters could act as challenge in governance and decision-making.
6. Professionalization of Management: major family business challenges revolves in the issue of struggle between maintaining family ownership and control and adopting professional management practices. One might say that when companies become more significant, they often require introducing stricter rules of governance and proper shouldering of responsibilities in company management as well as adherence to existing legislation.[3]

Issues Unique to Family Owned Business Enterprises

India comprises a large number of family businesses, where companies are usually run by the families. The Indian Companies Act, 2013, provides a framework for corporate governance, but family-owned businesses often face additional challenges- Indian FOBs must follow various provisions of the Companies Act, 2013 that prescribes some of the governance standards which includes board of directors' constitution, audit committees and disclosure

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[2] Pieper, T., 2003. *Corporate governance in family firms: A literature review* (pp. 121-146). Fontainebleau: Insead. https://flora.insead.edu/fichiersti_wp/inseadwp2003/2003-97.pdf

[3] Shanmugasundaram, S., 2020. Internationalization and governance of Indian family-owned business groups. *Journal of Family Business Management*, *10*(1), pp.76-94. https://www.emerald.com/insight/content/doi/10.1108/JFBM-06-2019-0040/full/html

standards. Nevertheless, it can be difficult for the family owned business ("FB") to monitor the compliance with these rules to the extent, given the traditional structures of the governance.

The key challenge is to attain transparency and adequate disclosure in family businesses where most of the powers lie with the families involved. Though the Companies Act, 2013 has provided various disclosures, the execution of the same differs from Company to Company and in particular in the Family Business. It is common for there to be some conflict of interest between family and business hence affecting the businesses. In family firms, systems for conflict management and other problems which stem from family interactions are crucial for sound governance.[4]

Family owned businesses may have boards that are dominated by various family members, which may be a determinant to the effectiveness, impartiality and autonomy of the boards. The complexity of maintaining the balance of family members' engagement and professional management of the organization is another issue.

It is always a challenging task for the custodians of family owned businesses to understand and manage the relationship between family and business. In fact the characteristics of FOB-concentrated ownership, family involvement in management, long-term orientation; are both an advantage and disadvantage. This is the reason why it is important to understand the dynamics of these processes in order to improve the system of governance and compliance with the legislation which in turn fosters development.

2. Legal Framework Governing Family-Owned Businesses in India

Some Important Provisions of Companies Act, 2013

The Companies Act no 18 of 2013 of India offers a general regime for corporate governance in the country including for family businesses. Key provisions relevant to family-owned businesses include:

1. Board Composition and Responsibilities: As for the size and the type of the company, the Companies Act also requires that the board of directors must have a minimum number of the directors and there should be independent directors. The requirements

[4] Swamy, V., 2011. Corporate Governance and Firm Performance in Unlisted Family Owned Firms. *International Journal of Business Insights & Transformation*, *4*(2). https://search.ebscohost.com/login.aspx?direct=true&profile=ehost&scope=site&authtype=crawler&jrnl=09745874&asa=Y&AN=68640398&h=jMUJSNYcwCwwKJYfoymV5uNOJJEjGR8AHslwQF9XFjPvs%2Fk2gcp2ruV0x3BjOT3HMSif0ka%2BcqK3peex4N92QQ%3D%3D&crl=c

having independent directors stated in the act include the section 149 that state that there should be at least one third of the board as independent directors in certain companies. The objective here is to guarantee fairly balanced and fair decision-making which is often a problem in family businesses where most of the board members are family members.[5]

2. Audit Committees: Section 177 calls for the formation of audit committees that must comprise of at least 3 directors with majority of them being independent directors. There is a financial reporting and compliance committee which plays a vital role for independently monitor the family owned businesses where the strict monitor may not have enough strength.
3. Disclosure Requirements: Part IV of the Companies Act of 2006 also provides for very strict disclosure rules in the annual report, for instance the financial statements, the director's report, and details of the related party transactions as provided in section 134 of the Companies Act. In the case of family business, these requirements have to be met while carrying out the operations due to the requirement of transparency and accountability despite the cultural barriers that may result from tradition.[6]
4. Shareholder Rights: The Act also offer certain certain remedies to the aggrieved minority shareholders who have similarly have their rights violated. This is especially so on family influenced organizations in which the families may exercise large sway over matters affecting the minorities who are shareholders.

The Regulatory Framework of Securities and Exchange Board of India (SEBI)

The role of the SEBI in regulation of corporate governance remains instrumental particularly in relation to the listed firms. Key regulations relevant to family-owned businesses include:

1. SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015: As per this regulation, the provision of following rigid norms and practices have been prescribed for all the listed companies. These include provisions related to the formation of the board of directors, audit committees and relating financial reports

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[5] Subramanian, S., 2016. A comparison of corporate governance practices in state-owned enterprises and their private sector peers in India. *IIM Kozhikode Society & Management Review*, *5*(2), pp.200-216. https://journals.sagepub.com/doi/abs/10.1177/2277975215617268

[6] Chahal, H. and Sharma, A.K., 2020. Family business in India: Performance, challenges and improvement measures. *Journal of New Business Ventures*, *1*(1-2), pp.9-30. https://journals.sagepub.com/doi/abs/10.1177/2632962X20960824

which assists in ensuring corporate governance and safeguard the interest of the shareholders. These regulations apply to family businesses that are floated on the exchange; to ensure that the corporate governance practices meet the market requirement.[7]

2. SEBI regulation 2011: ‘Substantial Acquisition of Shares and Takeovers’; these regulation gives provisions for control by family business over the following corporations. These are aimed at the defense of shareholders’ rights from self-sanctioned exploitation of the equity and guarantee that any large acquisition or bid is effected correctly.

Role of the National Company Law Tribunal (NCLT) and National Company Law Appellate Tribunal (NCLAT)

The NCLT and NCLAT are quasi judicial bodies that are responsible for the hearing of cases that relate with company law and corporate regulation. Their role is significant in the context of family-owned businesses- The NCLT being an appellate tribunal deals with issues arising within company law such as those occasioned by family related problems in family businesses. It can look into matters like oppression and mismanagement under Section 241 of the Companies Act and especially with family businesses where shareholders may even have rivalries that hamper business operation.[8]

It also deals with matters such as restructuring of companies, merger or demerger and insolvency cases. Family business restructuring accept the direction of the Tribunal while restructuring to ensure that the process is fair and within the provision of the Law. NCLAT has the jurisdiction to hear the appeals against the orders passed by the NCLT which in effect makes sure that all decision made by the NCLT is correct legally. This is important especially to family businesses to seeking redress or to challenge decisions made by the NCLT.

It is worthy of note that the legal provisions of the Indian legal system that apply to family businesses are standard setting in the areas of transparency, accountabilities and fairness. Simultaneously, the Companies Act, 2013, and SEBI regulations along with the functioning and decisions of the NCLT and NCLAT influence all the family-owned businesses. It is

[7] Guragain, L.N., 2019. Issues in separating Chairman and CEO/MD roles in Family Firms: Evidence from India’s SEBI reform. *International Journal of Science and Management Studies*, *4*(1), pp.60-74. http://www.ijsmsjournal.org/2021/volume-4%20issue-1/ijsms-v4i1p106.pdf

[8] Bhattacharyya, Asish K. "Evolution of Corporate Governance in Emerging Economies–Indian Experience." *Available at SSRN 3747512* (2020). https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3747512

imperative to adhere to these regulations for the enhancement of good corporate governance and the safeguarding of the interests of the various stakeholders including the family members; the minority shareholders; and the general public.[9]

3. Governance Structures and Practices in Family-Owned Businesses

Board Characteristics

Another notable observation implemented on the board of directors is the existence of family representation that gives both positive and negative aspects of family influence to governance of the business venture. Board members may have family relationships which may lead to influence the decision making of corporate governance.

- Family Involvement: In board composition, members of family are most times involved in major decision making as chairmen, CEOs or managing directors. Such an engagement may foster good carriage of interests and develop good understanding of the business. However, if taken to the extreme, it may lead to one's biased decisions and possible unwillingness to accept professional management theories and approaches. This leads to failure in the delivery of the independent oversight mandate and a conflict of interest in consideration of various stakeholders' dynamics.[10]
- Independent Directors: Independent directors help in improving the governance standards and eliminate or reduce conflict of interest The Companies Act, 2013 has provisions that recommend the appointment of Independent directors. Independent directors provide third-party views in the board and therefore aid in the monitoring and controlling of managerial actions. The family businesses especially the listed ones or those that aim to go listed should consider having independent directors in order to meet the legal requirement (Section 149 Companies Act, 2013).
- Board Committees: It is important for family owned businesses to have specialized board committees for example, the audit, the nomination and the remuneration committee. These committees, that must also have independent members as per the

[9] Dhameja, N.L., Bobek, S. and Dhameja, M., 2022. Family businesses: Need for good corporate governance and succession planning. *Journal of Management Research*, *22*(2), pp.101-114. https://www.indianjournals.com/ijor.aspx?target=ijor:jmr&volume=22&issue=2&article=002

[10] Ramachandran, K., 2006. Indian family business: Their survival beyond three generations. Indian School Business, Hyderabad, 2(1), pp.5-9. https://encubeindia.com/downloads/indian_family_businesses.pdf

rules of the regulatory authorities, are involved in overseeing specific facet of governance and that too by making decisions that are evaluated and transparent.

Family involvement and management structures

Family involvement in management is a hallmark of family-owned businesses, and it influences governance structures in several ways:

Management Roles: A lot of them are employed as manager and directors meaning that they can directly determine the direction and manner of operation of the company. While this would allow for swift decision-making and consistency in an organization's operations it poses disadvantages as it leads to issues such as hiring of relatives and lack of professional management approaches. It is therefore important to pursue a proper mix of family influence and managerial practices for exponential growth and efficient control.

Succession Planning: The issue of Succession is very sensitive in family business since they involve governance. It refers to the preparation in the organisational succession whereby the next generation is prepared to take over from the current one. It is very crucial to analyse the generational issues complications, organizational requirements and the legal factors in succession. One cannot overemphasize the provision of strategies on successions to avert animosities and confusion in the business. The above Companies Act, 2013 does not contain provision on succession planning, but it focuses on good corporate governance provisions (Sections 134-137).[11]

Maintenance and Management of Conflict and Succession Strategies

Usually, it is very important to come up with structures in case of the conflicts and also if there is a change of the leadership by coming up with structures that can enable sustainability in the operations of the business.

Conflict Resolution Mechanisms: It has been recommended that to avoid the disruption of business as a result of family conflict, formal structures need to be put in place that solve these family disputes. These may be achieved through mediation, arbitration or the adoption and implementation of a family council which is in charge of dealing with all family issues. The organization of pertinent conflict solving procedures can be used in keeping order and to make certain that all the executives' decisions are beneficial for the organization.

[11] Bhattacharyya, R., 2007. Road blocks in enhancing competitiveness in family-owned business in India. http://115.249.96.25/xmlui/handle/2259/73

Succession Planning: Succession management means not only finding potential successors and preparing them to lead, but also shaping the process of transition. It should embrace all the relatives and entail elements such as coaching, starting a internship system and job rotation. Succession planning is useful in maintaining the business's continuity and the longer-term is also popularly maintained.[12]

Challenges and Best Practices

Managing family businesses has its peculiarities, and therefore, governance practices may appear problematic; however, the best practices may help to overcome them.

By employing the principles of management, independent assurance and internal control the governance structures can be professionalized and made more transparent. This entails the establishment of the systems that will comprise of the standard practices for decision-making processes, reporting of financial affairs, and matters of the law. Transparency in the decision making and the reporting of the financial statements help in managing the expectations as well as the legal requirement of the shareholders. They recommend that family business should adopt practices that are open and give relevant information to the stakeholders.[13]

Some of the issues that must be addressed when deciding a company's governance include balancing the needs of the business with the needs of the family. This means that, having explicit policies and procedures regulating issues relating to both families and businesses can help in the quest of attaining sound governance and arriving at sound decisions that are in the best interest of the firm.

There is significant correlation between the involvement of the family in the family business and management roles together with succession practices. This means that while preserving the family's interest, the organization has to adopt profession management practices in dealing with such issues as conflict of interest, decision-making, and accountability to shareholders and the public. If corrected, these aspects would help in a better governance of the family businesses hence leading to sustainable growth and stability.

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[12] Dalmia, V., 2023. *Effective Succession Management in Nuclear Family Owned Business (NFOB)* (Doctoral dissertation, Indian School of Business (India)). https://search.proquest.com/openview/5f865529aa9e398a6499eac7f765f726/

[13] Refer, Das Gupta, C., 2023. The Regime of Capital Accumulation, the Hindu Undivided Family and the Business Group in Independent India. In *Indian Business Groups and Other Corporations: Comparative Organisational Perspectives on Indian Corporate Firms* (pp. 13-27). Singapore: Springer Nature Singapore. https://link.springer.com/chapter/10.1007/978-981-99-5041-6_2

4. Compliance and Accountability Issues

Disclosure Requirements and Financial Reporting Standards

In this regard, usually, the disclosure requirements together with the financial reporting standards help in demanding accountability of the family managers of FOBs. Under the Companies Act 2013 there are codes of conduct and guidelines regarding reporting and disclosure that have to be adhered to by all formats of businesses including family businesses.

By the provisions of the Companies Act 2013 section 134, the companies are obliged to prepare and present their annual financial statements in the form of balance sheet, profit and loss account and cash flow statement. Such statements need to be certified by an external auditor and then disclosed to the shareholders.[14] Far more specifically, to maintain essential legal compliance at least, financial statements have to be accurate and transparent especially for family businesses where the inner picture of the enterprise's financials can be quite complicated. Section 134 also prescribes director's report which shall contain details regarding the operation of the company, the performance of the company in terms of turnover, changes in operation and other related matters that may significantly affect the interests of the stakeholders. The report should be prepared-and-audited in a manner that gives a true and fair view of the company's position; it should also disclose any related party transactions that may have occurred, which is extremely relevant where the business is a family enterprise and such transactions may be more common and contentious.[15]

The Indian Companies Act 2013 section 188 made provisions that cover trump relation contracts and any business relations with officers, directors, its managing director, affiliate company and other party related to the organization are necessary to disclose in annual financial statements of such companies. This provision is rather important for companies where buying and selling can take place between the company and its owners – the families. Adequate disclosure enables to limit the conflict of interest situations, and facilitate all the related party transactions above the acceptable threshold provided the latter are well disclosed.

[14] Hegde, S., Seth, R. and Vishwanatha, S.R., 2020. Ownership concentration and stock returns: Evidence from family firms in India. *Pacific-Basin Finance Journal*, *61*, p.101330. https://www.sciencedirect.com/science/article/pii/S0927538X17303736

[15] Bhatt, R.R. and Bhattacharya, S., 2017. Family firms, board structure and firm performance: evidence from top Indian firms. *International Journal of Law and Management*, *59*(5), pp.699-717. https://www.emerald.com/insight/content/doi/10.1108/IJLMA-02-2016-0013/full/html

Internal Control Systems as well as the practices in Audit

Internal controls and strong audit mechanisms are very crucial for family-business since they enhance compliance to the law and accountability. The Companies Act 2013 provides provisions regarding the internal control and audit which proves beneficial in the protection of the assets as well as the fair presentation of the financial statements.

As per the Section 177 of the Companies Act, 2013 these companies are mandated to implement their own Policies for prevention of frauds, maintenance of accuracy of its financial statements, for compliance with Law. First, internal controls that may consider the risks with family participation and management should be set in family businesses since there might be conflict of interest and poor management of resources.

the Act requires appointment of external auditors who are supposed to audit the company's statements and express an opinion whether they are accurate and comply with the set accounting standards. It is Section 139 of the Companies Act, 2013 lays down certain provisions for appointment tenure and rotation of the auditors which insists on auditing practices being independent.[16]

Case studies Describing Compliance and Non-Compliance

It can be useful to look at a number of case examples of firms that have complied or not complied with these recommendations and learn from their experiences; these examples can provide practical lessons for family business firms and others.

<u>Compliance Case Study</u>: One good example of family business is the tata group of India that has good corporate governance practices and high level of transparency. The Tata Group follows the provisions of the Companies Act, 2013 and SEBI regulations in reporting, disclosure and Independent Directors. The fact that the Group protects such standards has enabled it to retain its credibility and investors' confidence.

<u>Non-Compliance Case Study</u>: One of the most famous cases of non-compliance can be mentioned the Satyam scandal where the company's management with the help of family members of the founder dishonestly reported financial and other statements situations. The scandal proved the negative consequences of weak internal controls and bearing of the large-

[16] Ashwin, A.S., Krishnan, R.T. and George, R., 2015. Family firms in India: family involvement, innovation and agency and stewardship behaviors. *Asia Pacific Journal of Management*, *32*, pp.869-900. https://link.springer.com/article/10.1007/s10490-015-9440-1

scale fraud. It highlighted the case of proper governance measures as well as legal requirements that must be in place to avoid such considerations.[17]

Challenges in Ensuring Compliance

Family-owned businesses may face several challenges in ensuring compliance with legal and regulatory requirements:

Resistance to Formal Procedures: Firstly, using the data that reflect the fact that family-owned businesses tend to have a certain amount of formalization in their governance procedures, it is possible to identify some of the potential reasons for their avoidance of the formalization processes. To overcome this kind of resistance, there needs to be a push for professionalisation of governance, as well as the proper processes in regard to compliance and accountability.

Balancing Family and Business Interests: Thus, it can be seen that where the family and business are intertwined, issues of compliance can be somewhat entangled. Overseeing the behavior of family members and making sure they do not breach governance rules requires well articulated policies on the one hand and enforcement mechanisms that will check on the family executives so that they do not violate the rules on the other.

Resource Constraints: Due to their relative sizes, and sheer number, some of the growth inexperienced family enterprises may be unable to assimilate complex compliance and internal controls. Dealing with the mentioned aspects is a matter of focusing on the priority areas which need to be developed, and, if required, consulting external specialists.[18]

Similar to any other organization, compliance and accountability are very significant aspects when it comes to the family-business to ensure that they regain and improve the reputation of people in the business. Complying with the requirements or providing legal disclosures, applying and enforcing adequate internal controls and maintaining sound audits are critical for every company as as to meet legal and other regulatory requirements affecting its business, while protecting the interests of its shareholders and other stakeholders. Thus, it is possible to improve the governance of family businesses overcoming the challenges and applying the best practices to reach success.

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[17] Chauhan, V.S. and Garg, A.K., 2020. Family-controlled businesses in India: a shareholding pattern-based definition. *International Journal of Indian Culture and Business Management*, *20*(1), pp.60-73. https://www.inderscienceonline.com/doi/abs/10.1504/IJICBM.2020.105568

[18] Bhattacharyya, A.K., 2020. Evolution of Corporate Governance in Emerging Economies–Indian Experience. *Available at SSRN 3747512*. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3747512

Best Practices and Recommendations for Enhancing Governance in Family-Owned Businesses

Implementing Formal Governance Structures

Another of the major objectives in shifting on higher levels of governance within the family businesses is the introduction of the formal governance structures. They ensure that decision making processes are open, impartial, and in conformity with the set practice.

a) Formalizing the Board of Directors: In particular, family-owned businesses should ensure that the board structure is defined much in a formal manner, especially regarding the charges of the directors. This includes the management ability to select independent directors who are able to bring in nonbiased opinions and monitor some of the managerial activities. As per the provision spelt under Section 149 of the Companies Act, 2013 there has to be minimum number of independent directors depending on the categorization of such company. Use of independent directors in the boards may increase accountability and being a way of eliminating possible conflict of interest.[19]

b) *Establishing Board Committees*: Holding of sub-committees within the Board like Audit, Remuneration, and Nomination committees has benefits in explaining particular governance problems. For example, the Companies Act of the United Kingdom Section 177 require formation of an audit committee that will be responsible for financial reporting and internal control. It is also recommended that these committees should comprise some members of the family and some other members who are not related to the family business so as to avoid bias in the business.

Succession planning is a strategic organizational management process that entails identifying; evaluating; and implementing an effective system of passing on organizational responsibilities in a structured and orderly manner so as to ensure the continued achievement of organizational goals and strategic vision.

c) *Creating a Succession Plan*: A proper, well though, and worked out succession plan requires the identification of the potential successors, their preparedness to be taken through a proper training and coaching. Succession plan should tackle the ways and time frame for identifying successors, methods of handling family issues as well as

[19] Siebels, J.F. and zu Knyphausen-Aufseß, D., 2012. A review of theory in family business research: The implications for corporate governance. *International Journal of Management Reviews*, *14*(3), pp.280-304. https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1468-2370.2011.00317.x

other issues pertaining to the family. The position of the Companies Act, 2013 does not contain article on the issue of succession plan for businesses and therefore the best practice of family businesses is to incorporate succession planning in the governance structure to enhance the continuity of the enterprises.

d) *Involving Professional Advisors*: Another crucial recommendation is such family-owned businesses should seek to hire external consultants or legal counsel especially when it comes to the issue of succession. They can be utterly unbiased and offer technical help in creating succession approaches, as well as guarantee the chosen approach complies with legal and perceptive necessities.

Enhancing Transparency and Accountability

Understanding and disclosure are critical success factors that one has to implement to ensure that the corporate stakeholders have the opinion of the undertaking and that it is operating legally. These features can be improved by the family businesses by embracing the appropriate financial reporting and disclosures.

It is therefore important to maintain high standards of financial reporting as to minimize any form of influence on the results. It is important for family own business to maintain its records so that it is both reliable and in accordance with the Companies Act of 2013. This encompasses; declaration of Specified Related Party transactions in compliance with Section 188 in order to eliminate conflict of interest and other issues affecting stake holders.

Having adequate internal control plays an important role in tackling fraud, proper reporting of its financial status as well as meeting legal requirements. As per the provision made in section 177 of companies act, 2013, organization The companies also need to provide internal control mechanism to address the identified financial reporting risks and operational inefficiencies. Conducting periodical and comprehensive audit and review on internal controls of a business is useful in anticipating any potential problems which may occur.

Responding to Family Relations and Issues

Continued in this article is how family environmental factors and changes that affect family member relationships influence governance and, therefore, the decision-making process within family companies. Of course, it is vital to address these dynamics in advance to avoid the conflict and achieve the effective governance.

- Establishing a Family Governance Framework: The use of a family governance structure like family charter or family meeting may be useful in maintaining order within the family and addressing issues to do with decision making among the family members. A family constitution details the code of conduct in relation to the participation of the family in the business while, a family council is an assembly that deals with all family matters and makes decisions on behalf of the family.[20]
- Conflict Resolution Mechanisms: These entails coming up with formal ways of addressing conflicting issues that may arise in the family so as not to cause mayhem to the business. They may involve such measures as mediation or arbitration that supplement the conflict solving, in a professional and rational approach.

Promoting Professionalization of Management

The practice of professional management practices find a lot of application in the process of facilitating governance in business organizations as well as increases efficiency and effectiveness in operation.

Establishing professional management is significant to family business since they can preserve the management of the business and at the same time hire professional managers to manage the affairs of the business on a daily basis. That is why professional managers help to response carefully to business, which can enrich the family's vision and schemes. Setting specific standards and goals of the performance allows for the assessment of the quality of the management and governance systems. This means that a company can examine and evaluate its management practices with the view of finding out whatever drawback that may be prevalent that the company need to overcome so as to be in par with its strategic plans.[21]

Improving governance in family businesses entails instituting proper gatesmen structures, succession, increased accuracy and accountability, solving issues to do with the family and the managerial practices. Therefore, if family-owned businesses incorporate these best practices and recommendations, they will be enabled to enhance the effective governance, compliance to legal requirements, and hence increase their sustainability.

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[20] Azila-Gbettor, E.M., Honyenuga, B.Q., Berent-Braun, M.M. and Kil, A., 2018. Structural aspects of corporate governance and family firm performance: a systematic review. *Journal of Family Business Management*, *8*(3), pp.306-330. https://www.emerald.com/insight/content/doi/10.1108/JFBM-12-2017-0045/full/html

[21] Krishna, K.M. and Aryasri, A.R., 2014. Corporate Governance in Family Owned Businesses to Compete with Global Companies-A Case of Semiconductor Industry. *Pratibimba*, *14*(1), p.55. https://search.proquest.com/openview/9065180bc0df390b12669fc10705a38d

5. Conclusion

Thus, It is concluded that these enterprises present distinct dynamic environments under which family and business intersect hence necessitating suitable organizational structures that will address the dichotomy of professionalism in management and tug of family business interplay.

First, there is a need to define the legal framework for the organization's governance by creating a properly constituted board of directors and specific committees. Independent directors mentioned in the Companies Act, 2013, brings impartiality and monitors the working to eliminate biasness and favoritism. These structures assist in avoiding disasters such as conflicts of interest and general oversight. Second, there is need to have a good succession plan as this will ensure continuation of business. Implementing good succession planning model that makes the next generation ready to take up leadership positions and involving professional consultant can lead to good transition and long term stability. While the Companies Act, 2013 does not explicitly outline the succession planning process it must be incorporated into the governance system as a best practice for family businesses. Also, promoting transparency and accountability are the critical issues, which include strict reporting of financial statements and build up of strong internal control mechanisms. Complaisance with the financial reporting standards and putting in place sound internal controls assists in the establishment of credibility to the various stakeholders Besides, protects the Company against poor financial management.

Minimizing family related conflicts in business by adopting strategies such as developing a family business governance structure and means to solve disagreements before they reach unhealthy levels with regard to business function. Managers from outside also help in the professionalizing of the management practices and establishing key performance indicators which also assist in the understanding of governance. Thus family business can be able to achieve a sustainable success should they incorporate the above mentioned governance best practices. Therefore, through the implementation of integrated structures, the establishment of viable succession strategies, increased transparency, ability to deal with family factors, and management, these firms can be able to cope with governance issues and achieve future sustainable growth and stability.

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