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THE ROLE OF CONFLICT IN THE ADOPTION OF GOVERNANCE PRACTICES IN FAMILY BUSINESSES

ABSTRACT

Purpose – Little is known regarding triggers in the adoption of governance practices within family businesses. Enterprises can implement governance practices to avoid re-arising conflicts lived in the past. Moreover, the type of conflicts experienced can determine the order in which different types of governance practices are adopted, another issue that requires further investigation. To address these knowledge gaps, this study gathers evidence into how the adoption of governance practices is linked to the conflicts experienced in family businesses and how this adoption evolves.
Methodology - A multiple case study was conducted with 15 family businesses in the agricultural sector. The conflicts experienced throughout the enterprises' trajectories and the governance practices adopted were analysed and classified according to their relationship with the family, business and ownership subsystems.
Findings – The study shows that there is no direct link between the conflicts experienced and the governance practices adopted in family businesses. The most recurrent conflicts have to do with the relationship between family and ownership; however, the adoption of governance practices is centred on the relationship between business and ownership. The practices that mediate the relationship between family and business are adopted second, and the practices that mediate the relationship between family and ownership are adopted last.
Originality - The study applies a classification of conflicts and governance practices that adjusts to the complexity of the family business. The research contributes to the field by providing an understanding of the integration of knowledge about the family business, governance systems and conflict.

Keywords: family business, corporate governance, family governance, professionalization, institutionalization and agriculture.

Introduction

In the literature there are numerous examples of successful family businesses, however, cases in which harmony is preserved and longevity is achieved are the exception rather than the rule. According to the Family Business Institute (2016), only 30% of family businesses remain to the second generation, 12% remain viable in the third, and only 3% manage to operate until the fourth generation or more. Family participation makes the family business system more complex than that of the non-family businesses. Where, in addition to the business and ownership subsystems, there is a third subsystem, that of the family, which produces conflicts that represent the greatest threat to the performance and continuity of family businesses (Schulze *et al.*, 2001; Ward, 2004; Dana and Smyrnios, 2010). The adoption of business and family governance practices has proven to be an effective means of avoiding, mitigating or resolving the conflicts that derive from the relationships between the three subsystems. For this reason, governance has been positioned as the main theme of articles published on family businesses in this century (Suess, 2014).

Debates surrounding the adoption of governance practices have focused on their effects on conflict management and economic performance (Pindado and Requejo, 2014). However, there is no consensus on the reasons for the adoption. On the one hand, it is known that reasons associated with stewardship and socio-emotional wealth theories explain why family businesses oppose the adoption of governance practices, and why rudimentary controls and informality in the organization predominate in them (Melin and Nordqvist, 2007; Dana and Smyrnios, 2010). On the other hand, it has been found that family businesses consider the adoption of governance practices more necessary as they grow and the probability of conflict increases (Lambrecht and Lievens, 2008; Kaur and Singh, 2018). Given that conflicts are not usually anticipated by family businesses (Siebels and Knyphausen, 2011), academics hypothesize that the implementation of governance practices arise in response to lived conflicts that business families seek not to repeat (Suess, 2014). Based on this, the present study aims to answer the research question: how is the adoption of governance practices linked to the conflicts experienced in family businesses?

Another controversial area is the order that family businesses follow when adopting governance practices. According to Belausteguigoitia (2012), in the life cycle of the family business, the family grows faster than the business, therefore, family governance should develop faster than business governance. However, the findings of Parada *et al.* (2020) and the reflections of Suess (2014) point out that enterprises adopt structures and practices related to business governance first and those related to family governance second. As such, the study aims to answer the research question: how does the adoption of governance practices evolve in family businesses?

To answer the research questions, the study typifies conflicts and governance practices according to the model of the articulating variables proposed by Belausteguigoitia (2012). According to this model, conflicts in family businesses are due to failures in the variables commitment, control and leadership. However, there are governance practices that maintain the proper functioning of these variables. The classification allows us to analyze the link between the conflicts experienced by the enterprises and the governance practices adopted, as well as the type of practices that are prioritized in the adoption. The study is conducted through a multiple case study design, a research strategy that has gained participation in the literature on family businesses, and that uses different lenses to reveal multiple facets of the studied phenomenon (De Massis and Kotlar, 2014). The cases correspond to 15 enterprises linked to agriculture, a sector in which family businesses predominate. The enterprises were selected for their high performance and durability, a condition that allowed us to extract greater profitability in learning, since conflicts and the adoption of governance practices are more recurrent in organizations with more advanced business and family cycles (Dana and Smyrnios, 2010; Kaur and Singh, 2018).

The study makes two contributions. Firstly, it shows that the adoption of governance practices focuses on the leadership variable that articulates the business and ownership subsystems, while the conflicts are concentrated on the control variable that articulates the family and ownership subsystems. Therefore, the adoption of governance practices is not necessarily in response to experiences of conflict that enterprises seek not to repeat. Secondly, the study finds that enterprises prioritize the adoption of governance practices that strengthen the leadership variable that articulates the business and ownership subsystems. As a second priority, they have the adoption of practices that strengthen the commitment variable that articulates the family and business subsystems. Finally, the practices that strengthen the control variable that articulates the family and ownership subsystems are rarely adopted.

In terms of governance, business families first seek to increase organizational efficiency and the wealth-generating capacity of their enterprises. This is indicated by the priority they show in the adoption of specific practices such as the distribution of roles and responsibilities and the inclusion in decision-making of different family members, different generations and external specialists. However, they strongly neglect family governance, which is worrying given that this and other studies find that conflicts related to the family subsystem are the most frequent (Ward, 2004; Dana and Smyrnios, 2010), and those that link to family and ownership are the ones that trigger the most destructive consequences for the family business (Eddleston and Kellermanns, 2007; Inwood and Sharp, 2012). With their contributions, the study helps achieve a better integration of the literature on conflict and governance, a request recently issued by family business scholars (Kubíček and Machek, 2020).

Literature review

Conflicts in family businesses

In family businesses, the intertwining of the family, business and ownership subsystems produces different types of conflicts. Among academics, the typology of intragroup conflict is the most used and distinguishes two types of conflict, those of relationship, associated with personal and emotional disagreements, and those of task and process, associated with cognitive disagreements about the means to achieve the ends (Jehn and Bendersky, 2003). However, recent studies suggest developing conflict typologies that fit the nature of the family business (Kubíček and Machek, 2020). The model used for this study was that of the articulating variables proposed by Belausteguigoitia (2012), which describes how conflicts that affect the performance and continuity of the family business are due to failure of commitment (variable that harmonizes the family and business subsystems), of control (variable that harmonizes the family and ownership subsystems) and leadership (variable that harmonizes the business and ownership subsystems).

With regard to the commitment variable, the family and the business compete for economic resources and for family time of active members in the enterprise (Belausteguigoitia, 2012). An excessive priority towards the family can damage the performance of the business, as when the altruistic attitude of the leaders incurs in agency costs, which Schulze *et al.* (2001) name the intrafamily agency conflict. Altruism causes leaders to treat family members with excessive generosity, such as awarding generous salaries, managerial positions without sufficient preparation and merit, unconditional entry into the enterprise, and immunity from penalties for breach of corporate agreements or poor performance (Schulze *et al.*, 2001; Kaur and Singh, 2018). The family's commitment to the business also decreases with the arrival of the extended family; that is, daughters-in-law, sons-in-law and in-laws, since they do not share the values, beliefs and communication practices of the nuclear and founding family (Kubíček and Machek, 2020; Sciascia *et al.,* 2013). The presence of children of infant age also produces competition for the enterprise's resources (Kubíček and Machek, 2020). On the other hand, an excessive priority to the business can damage family relationships, for example, when a very aggressive reinvestment policy maintains the family's daily life in excessive austerity (Kaur and Singh, 2018).

Regarding the control variable, internal struggles between owners and non-existent or deficient inheritance and succession plans tend to trigger fragmentation of wealth and decrease the competitiveness of family businesses (Belausteguigoitia, 2012). The lack of a succession plan that protects the enterprise through the selection and training of the most competent successors and a testament aligned to said plan, is the most common failure of control of family businesses, and leads to disinvestment and patrimonial fragmentation (Inwood and Sharp, 2012; Kaur and Singh, 2018). In turn, the lack of a compensation plan for unselected descendants with other assets and opportunities can cause conflicts that result in family disintegration (Friedman, 1991; Keating and Little, 1997). Another conflict from which the family business is not exempt is the principal-principal intra-family conflict, through which the majority owners expropriate benefits from minority owners (Aguilera and Crespi, 2012; Sakawa and Watanabel, 2019). Minority owners can be family members with a passive role in the business or external shareholders (Siebels and Knyphausen, 2011). With regard to external shareholders, it has been found that their presence and function as vigilantes mitigate the emergence of inappropriate management behaviours by the dominant family members; furthermore, it leads to a notable increase in risk tolerance and a more optimal investment policy (Bodolica *et al.,* 2020).

Concerning the leadership variable, centralized decision-making and the absence of mechanisms to guide and optimize operations lead to low profitability and the generation of a hostile work environment (Belausteguigoitia, 2012). Business alternatives are limited when new generations (Davis and Harveston, 1999; Woodfield and Husted, 2017), women (Keating and Little, 1997; Cortés and Botero, 2016) and external specialists (Briano and Poletti, 2017) are excluded from decision making. On the other hand, in an enterprise that lacks direction with defined roles and responsibilities (Kidwell *et al.,* 2012) and performance monitoring and evaluation instruments (Vandebeek *et al.*, 2016), there is also a lack of incentive to innovate and improve efficiency of operations in the different areas. Likewise, the duality of functions, for example, simultaneously being member of the board of directors and CEO, generates conflicts that reduce the effectiveness of the monitoring and evaluation tasks, since someone who is evaluated at the same time is an evaluator of the management results (Bodolica *et al.,* 2020; Briano and Poletti, 2017).

Governance practices, a means to face conflicts in family businesses

Corporate governance was originally conceived to manage the relationship between ownership and business in non-family businesses; however, its implementation has been extended to the family business, ignoring that family business contexts require a broader vision that includes family governance (Cortés and Botero, 2016). The complexity of family businesses gives rise to different conflicts, yet family and corporate governance can aid in mitigating or avoiding them (Brenes *et al.,* 2011; Suess, 2014; Kubíček and Machek, 2020), in favour of the harmony between family members, financial performance and the preservation of family wealth (Bammens *et al.,* 2008; Siebels and Knyphausen, 2011). Gallo and Kenyon (2005) define the family business governance system as the set of practices and structures implemented at the highest level of the family, the business and the ownership, to make the best possible decisions regarding management and control of the enterprise and its relationship with the members of the owner family.

In the literature, different governance practices have been identified that help family businesses to avoid, mitigate or resolve conflicts between the family, business and ownership subsystems.

Table 1 shows 21 practices that we have typified according to the model of the articulating variables proposed by Belausteguigoitia (2012). The first six practices strengthen the commitment variable that articulates the family and business subsystems. The logic of these practices is that there must be a structure, the family council, that takes care of the interests of the family such as the right to enjoy opportunities to work in the enterprise, the right to receive benefits from the enterprise, know about the financial situation and that family values are reflected in the business. Likewise, the family council must take care that the interests of the family do not harm the performance of the enterprise. Thus, the family and the business will maintain the mutual commitment to share the resources of the business family, and conflicts associated with altruism, the influence of the extended family and the accelerated growth of the family are avoided.

The following six practices strengthen the control variable that articulates the family and ownership subsystems. The logic of the practices is that there must be a structure, the shareholders' meeting, that addresses issues with a long-term perspective such as succession and inheritance, as well as the guidelines to maintain ownership between family members or to give access to external capital. This ensures that the enterprise remains in the hands of people with the ability and the will to continue and grow the business. It also prevents wealth disputes arising between members of descendant generations, often resulting in the fragmentation of the family business.

The last nine practices strengthen the leadership variable that articulates the business and ownership subsystems. The logic of the practices is that there must be a structure, the board of directors, which, based on objectivity, plurality and knowledge, makes the most important decisions about the direction and administration of the enterprise. This includes developing organizational designs, mechanisms for personnel selection, and instruments for monitoring and evaluating performance in all areas of the organization. This prevents the enterprise's resources from being underutilized, including the ideas and opinions of some family members. When some family members perceive that they are excluded from the most important decisions for the organization, conflicts can arise that affect the performance of the enterprise and damage family relationships.

[Table 1]

Adoption of governance practices in family businesses

There is a consensus in the literature that governance practices become more necessary as the complexity of the family business increases. On the family side, with a greater number of family members involved (Dana and Smyrnios, 2010; Kaur and Singh, 2018; Pittino *et al.*, 2020), and on the business side with the growth of non-family personnel hired and with the entry of new shareholders (Arzubiaga, 2018; Kaur and Singh, 2018; Aldamen *et al.*, 2020). However, reasons associated with the stewardship and socio-emotional wealth theories explain why family businesses are less inclined to adopt governance practices, even though they seem to need them more than non-family businesses. First, family ties can lead family business leaders to take stewardship for granted, and not consider it necessary to establish explicit government rules to eliminate potential agency conflicts (Lee and Chu, 2017; San Martin and Duran, 2012). Second, the desire to conserve socio-emotional wealth; that is, the desire for the family to maintain control of the assets and the administration of the enterprise and to preserve the family lifestyle, makes business families reluctant to admit external shareholders and directors who exercise formal control and external surveillance (Poletti and Williams, 2019).

Despite the existing consensus regarding the importance of adopting governance structures and practices, rudimentary controls and organizational informality are the most frequent in family businesses (Melin and Nordqvist, 2007; Dana and Smyrnios, 2010). Regarding family businesses that decide to adopt governance practices, there is insufficient evidence on the reasons for said adoption. In this sense, conflicts are a promising motive, as enterprises can implement governance practices to avoid re-arising conflicts lived in the past (Suess, 2014). Based on this, the study proposes to answer the question: how is the adoption of governance practices linked to the conflicts experienced in family businesses? The answer to this question helps to integrate the literature on conflict and the family business, a request from academics (Kubíček and Machek, 2020), using governance as a connector.

Another area with knowledge gaps about governance in family businesses is the order in which family and business governance mechanisms are adopted. The adoption of governance practices is considered beneficial to manage the increase in family and business complexity (Suess, 2014). According to Belausteguigoitia (2012), in most family businesses the family grows faster than the business, therefore, family complexity is expressed earlier and should be addressed by prioritizing the adoption of family governance practices. However, Parada *et al.* (2020) found that adoption evolves with business governance first and family governance second, and they explain why the business lifecycle and its associated complexity can move faster. According to the authors, the business life cycle is related to the start-up, growth and maturity stages, which occurs over a period that varies widely between enterprises. Instead, the family life cycle advances with similar lapses between one enterprise and another, with a period of between 20 and 30 years between generations.

In sum, it has been found that enterprises start by adopting business governance practices, due to legal provisions (Blanco *et al.,* 2016; Parada *et al.,* 2020), requirement of non-family shareholders (Lien and Li, 2014; San Martin and Duran, 2012), and due to the desire of the owner families to maintain control over non-family personnel as it increases (Arzubiaga, 2018; Kaur and Singh, 2018). On the other hand, family governance is mostly adopted by mature enterprises in which a larger family size makes agreements difficult (Suess, 2014), and in which a greater number of family members do not actively participate; hence, a greater sense for coordination and transparency is required (Brenes *et al.,* 2011). An additional argument that supports an order of adoption with business governance in the first place and family governance in second place, is the hypothesis that the impact of family governance on economic performance may be indirect, as family governance may be preceded by the adoption of business governance mechanisms such as the establishment of a board of directors and strategic planning (Suess, 2014). To enrich this debate with a different perspective, that of the articulating variables of Belausteguigoitia (2012), the present study answers the question: how does the adoption of governance practices evolve in family businesses?

Methodology

Design

A multiple case study design was adopted to analyse the trajectories of outstanding family businesses in the agricultural sector in Mexico. The case study approach was chosen as a general research strategy for its effectiveness in responding to how and why questions (Yin, 1994). From an operational point of view, the case study design was chosen as it allows for the integration of qualitative and quantitative, objective and perceptual data, which is important in the study of the family business where rational and emotional processes take place (De Massis and Kotlar, 2014). Finally, the case study was used due to its close interaction with professionals and real business management situations, which makes it an ideal methodology for creating relevant knowledge for practical application (Gibbert *et al.,* 2008).

Selection of cases

The enterprises analysed are located in the state of Jalisco, a federal entity in Mexico that contributes the most to its agricultural and agri-food GDP with 11.7% and 16%, respectively (INEGI, 2018). Further, Jalisco increased the value of its agri-food exports by 50% from 2012 to 2017 (INEGI, 2018), being decisive for the agri-food trade balance of Mexico to present surplus balances in recent years. Public officials, consultants, funders, and union leaders related to the agricultural sector in Jalisco were asked to recommend enterprises that stand out for their economic performance and durability. In each case, the informant who referred the enterprise helped establish the first contact with current leaders. The enterprises joined the sample once the leaders confirmed their availability and interest in providing information for the study. Further, the authors validated, after a first interview, if the case met the criterion of maximum profitability in learning (Stake, 1999). To meet such criteria, the enterprise´s performance had to be genuine; that is, it should not be produced with external support such as public subsidies or remittances.

Data collection

The data of each enterprise was collected through face-to-face interviews with the current enterprise leaders at the enterprises' facilities from May 2019 to February 2020. The interviews were scheduled in three sessions. In the first session, the business trajectory was discussed. The starting point in the trajectory was the year in which, according to the interviewees, the first key asset for the development of the enterprise was acquired. Then, interviewees were asked to report on the most important actions carried out by the enterprise up to the date. As mentioned in the case selection section, after this first interview the first and second author determined if the case, according to the data collected, would be included in the sample. In the second session, the family trajectory was conversed, emphasizing events such as successions, inheritances, marriages, divorces, births, deaths, and family conflicts. Finally, in the third session, the overlap analysis of family and business trajectories was shared and validated with the interviewees. All sessions were audio recorded and transcribed to retrieve in depth descriptions. Interviews are often the main source of data in case studies, and they are very effective when the events retrieved are highly significant to the interviewees (Eisenhardt and Graebner, 2007). Such is true in the events recovered in this study since they represented turning points in the life of the enterprises and the families. The data collection was stopped once the main agricultural production chains of the state of Jalisco were represented with at least one enterprise. According to Eisenhardt (1989), case studies involving four or more cases provide a good basis for analytic generalization, hence, a total of 15 enterprises were analysed.

Information analysis

From the interviews, a significant amount of data was collected on different topics related to business and family trajectories. To order the data and identify connections between them, grounded theory procedures were used (Glaser and Strauss, 1967). The totality of data collected gave rise to nine main categories: "current enterprise profile", "profile of current and former leaders", "business actions", "family events", "sources of financing", "knowledge networks", "ideology and core values”, "business and family conflicts" and “governance”. With these categories, we proceeded with open coding, selective coding and axial coding of the grounded theory (Strauss and Corbin, 1998). In the open coding stage, each line of the interview transcripts was reviewed and assigned according to its content to one or more than one of the main categories. As part of the selective coding, the categories "business and family conflicts" and "governance" were chosen to theorize in this study. Later, in the axial coding, patterns and relationships were identified in the categories. For this, the data encoded in the categories "business and family conflicts" and "governance" were typified according to the model of the articulating variables of the family, business and ownership subsystems proposed by Belausteguigoitia (2012). In the "governance" category, the data was used to measure the level of adoption of governance practices of each enterprise, taking as a reference the practices listed in Table 1. As a complement to the data collected in the trajectories, a checklist was filled out in agreement with the interviewees on the adoption or non-adoption of the practices. The link between the adoption of governance practices and the conflicts, as well as the evolution of the adoption process were analysed by comparing the data in the cases, between the cases and in the cases with respect to the existing literature.

Finally, a Pearson correlation test was performed between the levels of adoption of governance practices and characteristics of the enterprises such as seniority measured in years and the number of family and non-family employees. According to De Massis and Kotlar (2014), to address the complexity of the phenomena studied, multiple case studies can use quantitative data and procedures as an auxiliary. In our case, the correlation test was used to identify some reasons that rival conflict as triggers for the adoption of governance practices.

Validity and reliability

To ensure rigor related to internal validity, the adoption of a multiple case study design and the comparison of the observed patterns with those found in previous studies allowed for the elimination of rival explanations (Gibbert *et al.,* 2008; De Massis and Kotlar, 2014). Regarding the construct validity, data triangulation measures were taken with different interview sessions with the leaders of the enterprises and confirmation with testimonies of the actors who recommended them. Likewise, the results were validated with the interviewees and a convergent analysis was carried out, that is, the first and second authors analysed separately and later consolidated the convergent ideas. The triangulation of data, the confirmation of results with the informants and the convergent analysis are suggested resources to ensure quality in the operationalization of the relevant concepts (Gibbert *et al.,* 2008). In turn, the triangulation of data and the validation with different informants was essential to reduce the bias that retrospective accounts usually present due to memory weakness (Golden, 1992) and handling of impressions by the interviewees (Huber and Power, 1985). External validity was managed with the adoption of a multi-case design, with which we sought to obtain more precise and better-confirmed results for analytical generalization. Finally, to strengthen reliability, an attempt was made to state every step of the process by which the cases were conducted.

Results

Table 2 presents the general characteristics of the 15 agricultural enterprises analysed. The enterprises have an average age of 54 years; the most recent is 13 years old and the oldest 93. The data highlights that in 13 cases (87%) there are at least two generations participating in the management and operation of the enterprise, and although in 10 cases (67%) the second generation is the main one in command, each case shows a unique intergenerational mix. On average, there are six family members participating in the management and operation of the enterprises, and the range varies from one to 22 family members. As for the size of the enterprises expressed by the total number of jobs generated, the average is 262, however, this ranges from an enterprise that employs only its two owners, to one that provides jobs for 1,300 people. In summary, enterprises are heterogeneous in terms of the portfolio of products they offer, age, number of participating family members, intergenerational mix and number of non-family jobs that they generate.

[Table 2]

Conflict events along trajectories

The study of the trajectories allowed for identifying conflict events in the enterprises analysed. Figure 1 shows which enterprises have experienced conflicts derived from defects in the articulating variables commitment, control and leadership proposed by Belausteguigoitia (2012), as well as, which of them have not yet gone through conflicts in the relationships between family, business and ownership, and therefore are in harmony.

[Figure 1]

In three cases there have been conflicts in the commitment variable that harmonizes the family and business subsystems. In AE01 and AE08, members of the second and third generation were hired in management positions without sufficient preparation, conviction and merit, a situation that adversely affected the performance of the enterprises. In addition, in AE01 there was an abuse of trust by a pair of sons to the detriment of the founder and the enterprise. Lastly, in AE10 the wife of the current director disagreed with the amount of time that he continues to dedicate to the enterprise, despite his advanced age (58 years).

In eleven cases, conflicts were identified in the control variable, which harmonizes the family and ownership subsystems. In ten of these cases, at some point in their history, heritage has been fragmented in terms of the production area or number of head of cattle. In AE01, AE05, AE06 and AE07 an equitable inheritance process, where the founders distribute the assets of the enterprise in the most equitable way possible among their heirs, has been the reason for fragmentation. In case AE06, in addition to fragmentation, there is ambiguity in the ownership dimension, since the founder bequeathed a 72-hectare estate in life to his four sons without having defined what portion of the ownership belongs to each heir. This has led to conflicts since three heirs want participation in the profits of an avocado plantation established by one of the sons on a portion of the ownership. The AE10 case presented a separation of two members of the second generation because the size of the founder's enterprise was not large enough to provide an attractive income for all members of the family, and there was also resistance to innovation by the founder. The leaders of AE10 decided to separate by subtracting their assets from the family business. In AE11, AE14 and AE15 the fragmentation responds to difference in objectives between siblings of the second generation. In AE09, AE10 and AE12 the family introduces separation ideas; in the first case the idea comes from the professional sons of two of the seven partners and in the remaining two they are enterprises run by father and son. In AE10 the idea of separation comes from the wife of the father and in AE12 from the wife of the son. In AE13, a potential successor has not been identified, and because of this the current leader plans to close the enterprise. In all these cases it is observed how the absence of a succession plan, differences in objectives between siblings and the influence of the extended family, generate conflicts that cause fragmentation in the family, business and ownership. This forces families to start in disadvantageous conditions to form a heritage, and in some cases, the conflicts cause loss of patrimony and a dissociation of the family.

In four cases there were conflicts in the leadership variable, which harmonizes the business and ownership subsystems. In cases AE02 and AE08, an authoritarian leadership style is out of alignment with the life cycle of the enterprises, in which the second generation is already participating in the first case, and the second and third generation in the second case. This causes the members of the new generations to feel excluded from the scope of the enterprise and their talent, resources and contacts are wasted. The relatives of AE10 went through a similar leadership mismatch, however, the father and son reached an agreement and now exercise a participatory leadership style, where the son contributes ideas, and the father validates and formalizes them. In another case, in AE05, the third generation was given complete freedom of decision and unbridled decisions were made, placing the director's life at risk and causing significant economic losses for the enterprise. According to the current director of AE05, economic losses could have been avoided or reduced if any of his predecessors had exercised counterbalance in the decisions.

Cases AE03 and AE04 are enterprises with low family participation and have not experienced conflicts regarding the articulating variables proposed by Belausteguigoitia (2012). In the case of AE03, the youngest analysed enterprise (13 years old), which is led by a group of three founding partners, only one of them has an operational participation and he has incorporated his girlfriend to work in the enterprise, however, they have no children. Regarding AE04, although it is an enterprise whose trajectory has seen two generations pass, the enterprise was re-founded towards its current activity by a member of the second generation in 2002. In 2016, a brother of the founder joined, and only a member of the third generation begins to have participation working on vacations and some weekends.

Adoption of governance practices

Table 3 shows how many and which governance practices are adopted by each of the 15 agricultural enterprises analysed. On average, each enterprise adopts 22% of the practices listed in Table 1, the minimum is 0% and the maximum 57%. The level of adoption is low even though eight cases were considered in which a board of directors was initially established to cover legal provisions or per the request of external shareholders, and not with the purpose of forming a group of competent and objective people to direct and supervise the operations of the enterprises. Similarly, in relation to the practice of distribution of functions and responsibilities, adoption was considered, even when in three cases the organizational arrangement is limited to distinguishing two main areas, production and marketing. The most widely adopted governance practices are those that strengthen the leadership variable and keep the relationship between business and ownership in harmony. On average, each enterprise adopts 37% of these practices. Regarding the practices that strengthen the commitment variable and harmonize the relationship between family and business, each enterprise adopts an average of 12%. Finally, of the practices that strengthen the control variable and harmonize the relationship between family and ownership, enterprises adopt an average of 9%.

[Table 3]

Table 4 groups enterprises by the types of conflicts experienced in their trajectories and shows the rates of adoption of governance practices. Enterprises prioritize the adoption of governance practices associated with the leadership variable, regardless of the presence of conflicts and the type of conflicts experienced. Enterprises that have experienced conflicts due to failures in the commitment and control variables do not focus their adoption on governance practices that mitigate such failures; although enterprises with conflict in commitment adopt more practices that strengthen the commitment variable compared to the other groups.

[Table 4]

Table 5 shows the association between the adoption rates of governance practices and the characteristics of the enterprises analysed. Adoption is associated with the number of non-family jobs; in other words, the enterprises with the highest adoption rates are those that employ a greater number of non-family people. Specifically, the governance practices related to the commitment and leadership variables are those that follow this pattern of adoption. The number of family members who participate in the operation and administration of the enterprises is only associated with the adoption of practices related to the commitment variable; therefore, the enterprises in which more family members participate adopt more practices that harmonize the family and business subsystems. Finally, seniority is not associated with the level of adoption; that is, the enterprises with the highest adoption are not the oldest.

[Table 5]

Discussion

The adoption of governance practices is a means that has proven to be effective in avoiding, mitigating and resolving conflicts inherent to family businesses (Bammens *et al.,* 2008; Yeh, 2019; Kubíček and Machek, 2020). Scholars hypothesize that experience with conflicts in the relationships between the family, business and ownership subsystems can motivate the adoption of governance practices, since family businesses will want to prevent conflicts from re-emerging (Suess, 2014). Based on this, we proposed to answer the question: how is the adoption of governance practices linked to the conflicts experienced in family businesses? In general, in the enterprises analysed, there is no alignment between the conflicts experienced and the governance practices adopted. Figure 1 shows that the most recurrent conflicts occur around the relationship between family and ownership. However, Table 3 shows that governance efforts are mainly aimed at strengthening the relationship between business and ownership. Furthermore, as Table 4 shows, this priority exists regardless of the presence of conflicts and the type of conflicts experienced. Therefore, it seems that the adoption of governance practices is not necessarily done in response to own experiences of conflict in family businesses.

Since the adoption of governance practices is not done in response to the conflicts experienced, it became more important to answer our second question: how does the adoption of governance practices evolve in family businesses? The governance system evolves prioritizing the strengthening of the leadership variable that articulates the business and ownership subsystems. This, as presented in Table 5, regardless of the age of the enterprise and the family complexity measured by the number of family members involved. As can be seen in Table 3, adoption specifically focuses on practices such as the distribution of roles and responsibilities and the inclusion in decision-making of different family members, different generations and external specialists. Therefore, the priority is probably due to enterprises first seek to increase organizational efficiency and capacity to generate wealth, through organizational arrangements with differentiated and professionalized areas, and through a higher quality in decision-making. This evidence supports the argument that the relationship between family governance and economic performance is mediated by the orientation of the owner family to increase their wealth (Suess, 2014). This orientation is reflected in the fact that family governance is preceded by the adoption of business governance practices that increase the organizational efficiency and the quality of decision-making in the enterprises.

The legal provision to establish a board of directors when enterprises are registered as joint-stock companies is another driver to begin the evolution of the governance system with the leadership variable. As it is a coercive adoption, the boards of directors established by family businesses are not necessarily functional and may exist only on paper (Blanco *et al.,* 2016; Parada *et al.,* 2020). The requirements of non-family shareholders are another reason why the adoption of governance practices that harmonize the relationship between business and ownership is prioritized, since external shareholders seek to eliminate agency problems and ensure the highest return on their investments (Lien and Li, 2014; San Martin and Duran, 2012). Likewise, as can be seen in Table 5, the desire of the owner families to maintain control over non-family personnel as it increases, may be another reason why governance begins by regulating the relationship between business and ownership. As the enterprise grows, it becomes necessary to distinguish areas, tasks and responsibilities; furthermore, it becomes more difficult to find the appropriate staff in the family (Kaur and Singh, 2018). The hiring of external personnel makes it necessary to separate administration from ownership, and with this, the need to develop governance policies for the organization is perceived (Arzubiaga, 2018; Kaur and Singh, 2018).

Secondly, enterprises adopt governance practices that strengthen the commitment variable that articulates family and business. Specifically, Table 3 shows that enterprises create family councils to transmit family values to the business, regulate the ways in which family members can enter the enterprise to work, and establish policies for reinvestment and withdrawal of profits. These practices help to prevent and resolve conflicts between family members with an active and passive role in the enterprise (Davis and Harveston, 1999; Kubíček and Machek, 2020). In addition, to the extent that the enterprise is able to employ more people, family and non-family as shown in Table 5, the adoption of mechanisms that regulate the participation of the family in the business may become more necessary to efficiently assign jobs (Kaur and Singh, 2018). In this way, enterprises eliminate the adverse effect that the altruistic attitude of leaders could produce on business performance (Schulze *et al.*, 2001), by defining mechanisms for the selection of human resources not based on family affiliation and giving the opportunity to external talents to enter the enterprise (Sirmon and Hitt, 2003). As shown in Table 4, the adoption of governance practices that strengthen the commitment variable does seem to be a reaction of enterprises to conflicts experienced, specifically in cases AE01 and AE8, in which assigning managerial positions to family members without sufficient merit has damaged business efficiency and family relationships.

Paradoxically, the relationship between family and ownership, which is the one that produces the most recurrent conflicts according to Figure 1, is the least priority in terms of governance for the enterprises analysed according to Table 3. In general, enterprises show greater urgency in adopting governance practices related to the business subsystem in comparison to those related to the family subsystem. The greater urgency for business governance may be due to the fact that, in enterprises with outstanding economic performance such as those analysed in this study, the life cycle of the business –start-up, growth and maturity–, advances rapidly and with it the business complexity increases (Parada *et al.*, 2020). The number of jobs is a representative measure of business complexity. On the other hand, the family life cycle progresses more slowly, since there can be 20 to 30 years between one generation and another (Parada *et al.*, 2020). It is after 20 years of their foundation, that enterprises begin to perceive difficulties caused by family complexity, when a considerable number of family members of at least two generations participate in the administration and operation of enterprises (Dana and Smyrnios, 2010; Kaur and Singh, 2018).

Even with the foregoing consideration, it is striking to observe that the enterprises analysed adopt governance practices related to the family subsystem at a very low level, although in most of them (87%) members of the second and third generation participate. This low adoption may be due to the fact that family governance is not legally mandatory and depends solely on the decision of business families (Suess, 2014). Other reasons to explain the low adoption, specifically of the practices that regulate the relationship between family and ownership, may be the ignorance of such practices or simply because issues such as succession, inheritance and patrimony are considered too sensitive to be treated in advance and enterprises prefer to avoid them. However, it is worrying that mechanisms are not adopted to harmonize the relationship between family and ownership, since conflicts arising from dysfunctionalities in this relationship are highly responsible for the ruin of family businesses (Eddleston and Kellermanns, 2007; Inwood and Sharp, 2012), and they do not allow the family business to comply with two of its essential objectives, the preservation of heritage and the transfer from one generation to another (Poletti and Williams, 2019).

Contribution

Governance is the main topic of the articles published on family businesses in this century (Suess, 2014). Studies have focused on the effects of governance on economic performance (Pindado and Requejo, 2014). However, this study takes a step back to explain why governance practices are adopted, an issue on which there is no consensus in family business literature. In this regard, the study makes two contributions.

First, on the question posed by academics about the effect of conflict as a trigger for the adoption of governance practices (Suess, 2014), it is shown that the adoption of governance practices is not necessarily carried out in response to own experiences with conflicts that enterprises seek not to repeat. In fact, the study finds a misalignment between the type of conflicts experienced and the type of governance practices adopted. To verify this, family business conflicts and governance practices were typified according to the model of the articulating variables of the family, business and ownership subsystems proposed by Belausteguigoitia (2012). The intragroup conflict scale that distinguishes two types of conflict; of relationship and task and process (Jehn and Bendersky, 2003), is the one most frequently used in the literature, yet it does not fully fit the nature of the family business (Kubíček and Machek, 2020). In this sense, the classification used in the study helps to better integrate knowledge of the family business, governance systems and conflict.

Secondly, the study contributes to the scant evidence on the evolution in the adoption of governance mechanisms. Enterprises prioritize the adoption of governance practices that strengthen the leadership variable, which articulates the business and ownership subsystems; then the practices that strengthen the commitment variable, which articulates the family and business subsystems; and finally, the practices that strengthen the control variable, which articulates the family and ownership subsystems. The evidence agrees with the findings of Parada *et al.* (2020) and the reflections of Suess (2014) in the sense that business governance evolves faster than family governance. However, such adoption behaviour can be characteristic of high-performing family businesses in which the business life cycle progresses faster than the family life cycle.

The legal provisions (Blanco *et al.,* 2016; Parada *et al.,* 2020), the requirements of non-family shareholders (Lien and Li, 2014; San Martin and Duran, 2012) and the desire of the owner families to maintain control over non-family personnel as it increases (Arzubiaga, 2018; Kaur and Singh, 2018), are other reasons reported in the literature that explain the faster adoption of business governance. To this we add, due to the adoption of specific practices, the desire of business families to, at first, increase the wealth-generating capacity of their enterprises through organizational arrangements with differentiated and professionalized areas and with a higher quality in decision-making.

The study illustrates that family governance is neglected not only by researchers as shown by Cortés and Botero (2016), but also by enterprises with advanced family life cycles. This despite the fact that, conflicts related to the family are those that produce the most destructive consequences for the family business (Ward, 2004; Dana and Smyrnios, 2010). For this reason, like other academics (Siebels and Knyphausen, 2011; Suess, 2014), we recommend professionals and leaders of family businesses to adopt governance configurations that adjust to the family, business, and ownership complexity.

Implications, limitations and recommendations for future research

We identified that the adoption of governance practices related to the family subsystem does not evolve in accordance with the needs that the configuration of family, business and ownership requires to preserve its integrity. Maintaining the integrity of family businesses linked to agriculture should be a priority on the public policy agenda, considering the challenges projected for the sector in 2050: producing 50% more food in a context of climate change and where the arable land will only grow 10% (FAO, 2017). Family businesses predominate in the agricultural sector, 99% of farms in the United States are family owned (USDA-ERS, 2015), in the European Union the proportion is 97% (EC, 2013) and in Mexico 90% (Muñoz et al., 2018). The dominant narrative in multilateral organizations and in national policies has been centred on the need to technologically innovate agriculture. However, the institutional efforts of the sector can also have a favourable influence if they address the main reasons for non-adoption that we identified with respect to practices related to the family subsystem: ignorance of the practices and that are linked to issues of high family sensitivity. Given our experience interacting with the enterprises analysed, we believe that if leaders were trained to effectively introduce practices that help them manage their business, ownership and family, many conflicts and eventual separations or closures could be avoided.

Recent studies such as those by Pindado and Sánchez (2017), Van der Ploeg (2018) and Milone and Ventura (2019) find that new business families in the agricultural sector have capacities similar to business families in other economic sectors. However, entrepreneurs in the agricultural sector have traditionally been described as less educated, more reluctant to innovate and with fewer business management skills. Therefore, it is possible that in economic sectors –other than agriculture–, there are differences in the link between the adoption of governance practices and the conflicts experienced, as well as in the evolution of the governance system. We recommend exploring other sectors of the economy to enrich the debate on the role of conflict in triggering governance systems and the way they evolve. Likewise, we suggest examining family businesses with medium and low economic performance, since in them there may be a different adoption behaviour because the family grows faster than the business. To maintain a unified basis for discussion, future studies can use our classification of conflicts and governance practices based on the model of the articulating variables proposed by Belausteguigoitia (2012).

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