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FAMILY GOVERNANCE CODES- A COMPARATIVE ANALYSIS OF THE CODE APPROACH AND CONTENT

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Abstract

The governance codes have been conceived as a flexible tool to promote best practices of the listed firms. Family businesses, however, are a considerably more diverse type of companies and family business governance relates not only to the business but also to the family. The paper aims to examine the content and approach of the existing governance codes for privately held family businesses to determine whether there is a universal best practice how to address governance challenges faces by the privately held family firms. Building on the classical three-circle model of the family business system, we discuss aspects of family business governance which the governance code designed for this type of business are expected to cover. We conduct a comparative analysis of eight governance codes for privately held family firms published in the different parts of the world. Our analysis shows significant diversity among the analysed codes reflected in the divergent code approaches and recommendations for the governance best practice. Based on the revealed differences, we conclude that there is no universal best practice provided by the codes addressed to the family businesses.

Keywords:

corporate governance code, comparative analysis, family firms

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1 Introduction

The governance codes (hereafter codes) have become a cornerstone of corporate governance regulation around the world. In comparison with other forms of regulation, codes are "*formally nonbinding, flexible in their application and evolutionary in nature*" (Haxhi and Aguilera, 2015:2) and thus provide a great means for constant improvement of international best practices (Aguilera and Cuervo-Cazurra, 2004, 2009).

Historically, the purpose of the governance codes has been to establish corporate governance standards in the publicly listed firms. Their content has typically addressed the structures and procedures intended to direct and control top management on behalf of the company shareholders. However, in recent years, new types of codes designed for particular types of organisations or ownership have gradually emerged. Among them, governance codes for the family-owned businesses occupy a special place because these firms are often faced with the conflicting interests and needs of the family and the business. Governance mechanisms in the family firm do not deal only with the agency conflicts between principal and agent, principal and principal, or shareholders and creditors, but often must govern aspects beyond the corporate boundaries. More precisely, family business governance can be defined as "*a system of processes and structures put in place at the highest level of the business, family, and ownership to make the best possible decisions regarding the direction of the business and assurance of accountability and control*" (Gallo and Kenyon-Rouvinez, 2005:45).

One of the key streams of research on the governance codes consists of the comparative studies focusing on the convergence-divergence of the codes´ content and approach to investigate the

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possibility of developing universal best practice (for review, see Cuomo, Mallin, & Zattoni, 2016). The question arises as to whether the content and approach of the family governance codes are similar to each other, suggesting there is hypothetical universal best practice for the family business governance. Since family businesses are a considerably more diverse type of companies and family business governance must be capable of balancing the interests of family and business, governance codes addressed to this type of organisation may be equally diverse.

The aim of the paper is to examine the existing governance codes to determine whether there is a universal best practice on how to address governance challenges faces by the privately held family firms. We formulated two research questions that guided our research: 1) what constitutes the best practice of family business governance according to the individual codes, and 2) whether there is a sufficient level of similarity across the codes suggesting universal best practice. For this purpose, the study analysed eight published codes by using content analysis to compare the approach and content of the individual codes.

The structure of the paper remain is as follows. The next section is dedicated to the existing literature on the purpose of governance codes and theoretical foundations for code addressing the governance in a family firm context. The subsequent section introduces a methodology and the analysis of the sampled codes. The presentation of the results of the analysis follows. Finally, concluding remarks are presented.

2 Literature review

2.1 Corporate governance codes

Despite its rather long existence and importance, the academic research devoted to the codes took up only in the last decade (see, for a review, Cuomo et al., 2016). While the first code was issued in the United States back in 1978, it was the Cadbury Report issued in the UK in 1992 that became the model for the following governance codes. At the end of 1999, there were already 24 countries with at least one governance code. By mid-2008, 64 countries had already published 196 corporate codes, and by the end of 2016, this figure had risen to 91 countries and a total of 345 codes including the further revisions (Aguilera and Cuervo-Cazurra, 2009, Cuomo et al., 2016). The dramatic increase in the number of codes over time is due to the fact that virtually any entity can issue its very own code. In practice, codes differ in numerous aspects, but the primary attention is paid to two fundamental aspects-approach and content.

As regards the approach, the fundamental element of the codes since the Cadbury report is their voluntary nature. A “comply or explain” approach implies that firms either comply with the individual recommendations or deviate but explain the particular reason for non-compliance. An organisation is thus allowed a certain degree of flexibility in implementing the governance structure, that will lead to its goal attainment while promising better market transparency (Aguilera and Cuervo-Cazurra, 2009). It is ultimately up to the shareholders to decide whether the given deviation is a serious breach of the governance standard, and it is necessary to act.

The content of governance codes also varies according to the type of issuer. Different issuers have different goals in mind and power in hands to enforce their guidelines (e.g. Cicon, Ferris, Kammel, & Noronha, 2012, Haxhi and Van Ees, 2010). In general, the content falls into one of three categories based on the level of the code design.

The codes issued by inter- and trans-national organisations, such as the OECD or the European Union aim either to promote best practice on a global scale or to improve the quality of a governance standard in a particular geopolitical region. Next, there are the various national institutions. State authorities and stock exchange regulators, in particular, are the main actors in diffusing and revising codes in the country due to their ability to enforce and if necessary, impose a sanction (Aguilera and Cuervo-Cazurra, 2004). Other issuers have a somewhat limited ability to enforce compliance with code

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recommendations. Finally, there are governance codes issued by individual firms that may deliver their code of best practice in order to communicate transparency to investors and other stakeholders.

2.2 Governance code for family businesses

The reason for issuing a governance code for the specific type of business is the fact that the best practice addressed to the listed firms cannot be adopted in other settings. Since listed firms are typical of dispersed ownership structure and prone to principal-agent conflict, the code approach is primarily based on agency theory (Jensen and Meckling, 1976).

This is not a case in a vast majority of private firms where ownership is concentrated in the hands of one controlling or several block holding owners. A controlling owner often participates not only in the governance but also in the management. In case of the poor performance of the top management team or the board of directors, a controlling owner has the power to prevent managerial entrenchment and dismantle dysfunctional board. This arrangement, however, does not guarantee that private firms are resistant to other forms of agency conflict. A principal-principal agency conflict implies a conflict of interest between the owners with the different levels of ownership stake (Young, Peng, Ahlstrom, Bruton, & Jiang, 2008).

The ownership of a privately held family firm is naturally in the hands of a family. Nevertheless, not even family firms are immune to agency problems, even though principals and agents often belong to one family. In fact, a broader range of agency conflicts can be found in family firms than in nonfamily firms. Besides the conflicts of interest between shareholders and managers, controlling shareholders and noncontrolling shareholders, and shareholders and creditors, there may be a conflict of interest between family shareholders and family at large (i.e. family members without ownership or managerial position) (cf. Villalonga, Amit, Trujillo, & Guzmán, 2015).

Agency perspective of various potential misuses of power to extract private benefits on the expense of other family and non-family stakeholders is challenged by stewardship theory which suggests that family members are not primarily self-serving and opportunistic (Jensen and Meckling, 1976) but instead naturally behave in collective-serving, pro-organizational manner (Davis, Schoorman, & Donaldson, 1997). Since these two predominant theories are based on divergent assumptions, the approach of the governance code specific for a family firm may differ following one of those theoretical prescriptions.

As regards the content, a code should reflect the unique complexity of family business governance resulting from the overlap of the three systems of business, ownership, and family (Gersick, Davis, Hampton, & Lansberg, 1997, Nordqvist, Sharma, & Chirico, 2014).

In the ownership dimension, governance must serve the shareholders in a similar manner as in the nonfamily firm. These tasks of governance are usually carried out by a board of directors. The code may also cover the fact that older and larger business families have other assets and properties, besides the ownership stake within the particular business. Institutions of wealth governance, such as a family office or foundations, allow to manage wealth for future generations and fulfil family´s philanthropical goals.

In the business dimension, the governance processes and structures must ensure that the management pursues the firm´s primary objective. Recommendations on this topic particularly aim to establish close cooperation between the board of directors and top management team. In a family business, it is also necessary to prevent the possible harmful effect of unsystematic family involvement and the process of management professionalisation in the later stages of the family business.

Finally, a family dimension reflects the existence of a particular group of stakeholders within the family business system. The primary aim of family governance is to serve the needs of the family and help to strengthen relations between all three systems. For these purposes, business families can create various mechanisms of voluntary nature, such as family meetings or the constitution.

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Methodology and Sample

To identify the existing codes, we first consulted the database of the European Corporate Governance Institute (ECGI). The internet search followed. This process resulted in 21 governance codes. In the next step, we applied the following exclusion criteria to ensure the consistency of the following analysis.

First, a code must primarily address privately held family-owned businesses. In the initial sample, there were nine codes for privately held and/or small and medium-sized firms (namely, from Albania, Baltic states, Belgium, Dubai, Europe, Finland, Jamaica, Spain, and United Kingdom) that dedicated a section or at least a chapter to family businesses. This finding is not surprising as the vast majority of all private and small *and* medium-sized firms around the world are owned by families ("Tharawat Magazine", 2014). These codes generally covered specifics of ownership in the hands of the family and the issues of family governance. Nevertheless, they were not included in the final sample, since family businesses were of secondary interest. On the other hand, since we focus on codes primarily intended for family businesses, regardless of their size, the Hong Kong code for SMEs was included in the final sample.

Second, we excluded all codes written in other than the English language. Thus, governance codes from Austria, Columbia, Morocco and Spain were excluded despite being addressed to family businesses.

In an effort to extend the sample, we referred to a prior study on the topic to identify any remaining codes. Prigge and Thiele (2019) in their study compared eight codes, including the one from Finland (2009) and the Netherlands (2003). To best of our knowledge, neither of these codes is no longer available online. Further, the included Pakistan code referred to the Egyptian code in its effort to develop similar corporate governance guidance for family-owned firms. Likewise, this document is not available and most likely written solely in the Arabic language.

The final sample thus consists of 8 governance codes dedicated explicitly to private family businesses. Table 1 shows basic information on individual codes.

One thing all documents have in common is the fact that they were issued by the local private associations- typically related to family firms. In several cases, these professional associations cooperated with a legal or consulting firm. Geographically, the sample is rather diverse, which offers an opportunity to explore and compare the practice of family businesses in different parts of the world.

Table 1 Descriptive statistics of the sample

Code origin	Current version	Year of first code	No. of revisions	Type of code issuer	Addressed specifically for	Length
the Arab States of the Gulf	2016	2016	0	Private association	Family firms in general	71 pages
Germany	2015	2004	2	Private association	Family firms in general	40 pages
Hong Kong	2014	2003	2	Private association	Listed and unlisted SMEs, particularly family firms	162 pages
Italy	2017	2017	0	Private association	Unlisted family firms	25 pages
Kosovo	2015	2015	0	Private association	Family firms in general	52 pages
Pakistan	2008	2008	0	Private association	Unlisted family firms	28 pages
Switzerland	2006 (English 2008)	2006	0	Private consultant and legal firms	All family firms, particularly medium and large-size firms with private shareholders	36 pages
Turkey	2010	2010	0	Private association	SMEs, particularly family businesses	58 pages

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Based on the date of publication, codes fall into two groups. The first group of three codes (from Pakistan, Switzerland, Turkey) was published from 2006 to 2010. During this period, especially after the financial crisis, global interest in corporate governance issues has peaked, and a number of international and national issuers have developed new or revised existing governance codes. In all three cases, these are the first versions of the codes and have not been updated since then.

The second group consisting of five codes (from the Arab States of the Gulf, Germany, Hong Kong, Italy, and Kosovo), was developed between 2014 and 2017. In the case of Hong Kong and Germany, it is already the third version of the respective documents.

The length of the codes widely varies. It is thus likely that they differ in the form of the contents and level of detail of the recommendations.

3 Analysis of the codes

The subsequent step was a comparative analysis of the approach and content of the individual codes. First, based on theoretical reasoning of prescriptions of agency and stewardship theories, the author developed the initial list of categories related to three dimensions of the family business presented in the theoretical section. Second, the author read every document and coded text into the themes and topics.

Although only eight codes remained in the final sample, and all of them deal specifically with family business governance, a level of variability in terms of content and approach among them is substantial. In the next section, we first identify approaches to guidelines on the best practices and then discuss specific contents of the codes.

3.1 Approach to best practices

As mentioned in the literature review, the approach and content of governance codes depend on the type of issuer. Different issuers have different goals in mind and power to enforce the code provisions. All eight codes in our sample were issued by the professional associations. This fact is reflected in two key elements shared by all documents.

First, the purpose of the codes is primarily to provide guidance or assistance to business-owning families in selected areas of interest. Each area is presented in a certain level of detail; often including the findings of scholarly studies, statistical data and/or illustrative examples. Regarding the code framework itself, the Italian, Swiss, and German codes are closest to the standard governance codes for listed firms. All three countries have a rich tradition of family businesses, which have been acknowledged by academics, politicians, and the general public. While other codes go into great detail explaining the essentials of the family business, these three codes offer specific principles.

The second element related to the type of issuer is its ability to ensure compliance with the code recommendations. Professional associations do not have a means of enforceability and thus analysed codes mostly suggest or presume voluntary compliance. In some cases (e.g. Hong Kong, Turkey), a certain part of the content is based on the existing or forthcoming laws and thus must be adhered by the local firms in any case.

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Table 2 Summary of code approach

Code origin	Purpose of the code	Compliance with the code	The family business system	Family business definition	Approach to family business heterogeneity	Relationship between family and business
the Arab States of the Gulf	To provide guidelines that can assist a family business in avoiding the risks and hurdles that may lie along the path ahead.	Not defined.	3-circle model, family dominant	Not defined.	The structure and composition of the family governance institutions depend on the family, its size, objectives and vision.	Covered, the family should also define its risk tolerance.
Germany	To assist business-owning families to strike a balance between the interests of all stakeholders, and to preserve the business that has been entrusted to them for the generations to come - for the benefit of their family, their customers and their employees.	Distinguishes between "should" and "is recommended."	3-circle model, ownership dominant	Family businesses exist under the controlling ownership of one or more families whose intention it is to sustain this business for at least another generation.	Not covered.	Covered, owners should also define the importance of maintaining the business as a family-owned business.
Hong Kong	A tool for SME directors in setting strategic directions, business development and internal control – all practical aspects for governing their businesses.	Not defined.	3-circle model, business dominant	Not defined.	Recommendations adjusted according to five categories of the business.	Covered.
Italy	To propose ten principles and guidelines for entrepreneurial families who, by controlling, family companies larger than minimum size may be willing to assess their compliance	Voluntary, according to the comply or explain the principle.	3-circle model, business dominant	An unlisted family-controlled enterprise is a company in which one or a few families hold the majority of the share capital, and most often the share capital in its entirety.	For larger and more complex family firms, the code suggests an additional seven principles.	Not covered.
Kosovo	To pinpoint the most common corporate governance challenges, referring particularly to those faced by Kosovan family businesses, and propose good practices that can help them overcome these challenges.	Not defined.	3-circle model	Not defined	Shortly presents the stages that family firms go through during their lifecycle.	Not covered.

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Pakistan	To act as a guide for progressive, medium to large-sized, non-listed, family-owned firms in Pakistan. Code might also be used as a reference or benchmark to assess its corporate governance practices.	Voluntary	2-circle model	Organizations in which the shareholders belong to the same family and participate substantially in the management, direction, and operation of the firm.	Different recommendations for various types of family-owned firms and thus, not all provisions are applicable to all companies.	Not covered.
Switzerland	To show how the family can actually be an advantage and to provide some of the tools to help make it so.	Voluntary includes a section on the recommendation implementation.	2-circle model additionally includes the business environment	Companies in which the family is the controlling shareholder and/or exercises a decisive influence over the executive management or the board of directors with regard to the strategic and/or operational management of the firm.	Family firms should ideally implement all recommendations	Covered, including the situation that family is not able to keep the business entirely in the hands of a family.
Turkey	To prepare SMEs – particularly family businesses – for compliance with forthcoming governance regulations in the revised Commercial Code and to familiarize family firms with corporate governance principles.	Not defined, but recommendations overlap with the upcoming governance regulations.	3-circle model, business dominant	Not defined.	Distinguished between the needs of the family and the company.	Covered, further urges to make sure that professional management understands these definitions.

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3.2 Approach to a family business

The codes differed in their approach to a family business; right from the very understanding of what a family business is. One of the contributing factors is that there is no single definition for this type of business (Astrachan, Klein, & Smyrnios, 2002). There are several criteria that, individually or in combination, can lead to a different definition, making it challenging to compare family businesses across countries (Ramadani and Hoy, 2015). The codes in the introduction generally rationalise the need for code specifically for family firms due to undeniable differences from their non-family counterparts, but only half of the codes in our sample disclosed their definition of a family business.

Because of the overabundance of the definitions, Chrisman, Chua, & Sharma (2005) classified criteria into two groups: 1) definitions based on family involvement in different areas of family business governance (i.e. involvement criteria) and 2) definitions based on the essence of the family business (i.e. essence criteria). The first group of definitions (involvement criteria) examines the degree of family representation in the various areas of corporate governance, such as ownership, governance, and management (De Massis, Sharma, Chua, & Chrisman, 2012). The second group (essence criteria) is based on the idea that an overlap of family and business results in the business showing certain qualitative characteristics. Among the most common is a family intention for intragenerational succession or self-identification as a family business.

The Italian, Pakistani and Swiss definitions belong to the first group establishing the definition based on family involvement in the various governance and management roles. The German Code combined both groups of criteria as it expects the business-owning family to sustain the business for at least another generation.

A lack of agreement on the definition is an accurate reflection of reality. Even under one definition, family businesses typically differ among themselves in a number of aspects (Neubaum, Kammerlander, & Brigham, 2019). However, codes address this heterogeneity only in isolated instances. While recognising the variance in size and complexity of the firms, a majority of the codes merely states that not all of the recommendations are suitable for every family and business, in "one size fits all" manner. The exceptions in this regard are the codes from Hong Kong and Italy. The Hong Kong code is mainly characterized by a configurational approach to setting up governance mechanisms. It divides firms into five categories based on ownership structure and proposes recommendations and systems based on growing complexity up to the listed firm. The Italian code recommends an additional seven principles for larger and more complex family firms.

Finally, the codes also differed on the relationship between family and business. The degree of overlap of these systems entails inevitable consequences. All codes acknowledge the importance of sound corporate governance for the sustainability and stability of the family business, but not every code acknowledge the fact that besides numerous positive effects, family involvement in the business brings along also potential hazards arising from the distinctive differences in the priorities and goals between the family and business systems.

Being aware that the needs of the family and the business are very different (sometimes even conflicting), allows the family to define its priorities. Whether family or business comes "first" is reflected in the business policy, strategy, and purpose of business existence in general. In case that the needs of the family are prioritized, we can expect the prevalence of altruism reflected, for instance, in preference for the family over non-family members in the career advancement. On the other hand, if a family decides to put business first, it is necessary to establish clear rules as it helps to prevent potential conflict among family members, but also between family and non-family members.

The need to establish whether family or business comes first within the family business system is of utmost importance, but not every code explicitly recommended to do so. Overall, codes incline to business first approach as they warn against the decisions based on family ties and unfair treatment of non-family members.

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3.3 Content of the codes

The initial coding was based on the expectation that the content of the codes is most likely framed according to the 3-circle model (i.e. family, business, and ownership). This was not always the case. For instance, the codes from Pakistan and Switzerland opted for the two distinctive systems of family and business. As the third system, the Swiss Code suggests the business environment and highlights the importance of public governance, since family firms traditionally rely on lasting relationships with various stakeholders existing within and around the business.

Since even the content of the codes designed around the 3-circle model was not alike, the recommendations were instead categorized as the instruments of either family or corporate governance. Table 3 summarises the findings of the content analysis of the individual codes.

Recommendations on family governance

While family governance primarily belongs to the family system, it is no less important than the corporate governance mechanisms established within business and ownership systems. Mainly for the fact, that without mechanisms of family governance, intrafamily conflicts can easily spill over into the other systems and hinder or even sabotage existing structures and processes. The primary aim of family governance is thus to serve the needs of the family and help to strengthen relations between the family, business, and ownership systems.

The area that all codes cover without exception is the issue of intergenerational succession. Codes agree on the importance of formalised succession planning that ensures transparency of the process and builds consensus on the name of a successor. The degree of detail varies among the codes, but all recommend to actively involve a successor into the business as soon as possible.

Codes acknowledge that a family may not always be united. They primarily address ownership conflicts either between family shareholders as whole or family shareholders and the family at large - the agency problem unique to family firms. A potential solution for prevention of intrafamily shareholder conflict proposed by codes includes family governance institutions (such as family meetings, council, or constitution), shareholding policies, or pay-out agreements.

Family governance institutions stand out among those mechanisms but seem not to constitute a mandatory part of the code for the family-owning businesses that all of the analysed codes have in common. For instance, the Italian and the German codes do not delve into the family governance institution at all. The reason is their emphasis on different domains of the family business system. The German code, which is primarily focused on ownership domain, leaves specification and implementation of family governance in the hands of owners. The Italian code, on the other hand, solely focuses on corporate governance. Other codes, at minimum, cover family constitution or mission statement to materialise the family´s present and future intentions, manage intrafamily conflict and support the unity and harmony of the family.

Recommendations on corporate governance

Overall, the codes are more concerned with the instruments of corporate governance and thus address the balance between the family and the business, directly in the business domain.

In a family firm, the delicate strategic decision is whether a CEO should be a family member. From the perspective of the agency theory, a family CEO may indicate altruistic or self-serving behaviour of the family. This behaviour may lead to the rise of agency costs offsetting the reduction of cost from the resolution of the agency problem type I (Chrisman, Chua, Kellermanns, & Chang, 2007; Villalonga et al., 2015). On the other hand, according to the stewardship theory, a CEO is a steward who is intrinsically motivated to act for the benefits of the business and all its owners (Davis et al., 1997). The stewardship behaviour is, in particular, expected in the family firm context as a CEO is often a family member (Miller and Le Breton-Miller, 2006).

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The codes, however, do not refer specifically to the appointment of the family CEO. If any, their recommendations focus on executive jobs in general and maintain a position of the equal footing of family and non-family candidates (e.g. the German and Italian codes). The only exception is the Swiss code which is against favouring a family member. However, if there are two or more equally suitable applicants, a family member should be given preference.

A decision about whether a CEO is a family member or not is not necessarily an issue if a firm has a properly functioning board of directors. A board of directors represents a key mechanism of corporate governance serving several crucial roles. All of the codes, therefore, dedicate special attention to the functioning, size and composition of the board (due to the two-tier governance model in Germany, the code refers to the supervisory body).

Concerning the board size, codes acknowledge that there is no one-size-fits-all solution and propose to scale a board size according to business complexity. Some codes attempt to explicitly suggest optimal size a minimum size (such as the Pakistan code minimum of 5 directors) or a range (such as the Italian code- a minimum of 3 up to a maximum of 9, or Kosovo between 5 to 9).

Table 3 Summary of code content

Code origin	Family Governance				Corporate Governance			
	Family employment	Succession planning	Prevention of Intra-family conflicts	Institutions	Top management and CEO	Board size and composition	Prevention of shareholder conflicts	Prevention of intra-family shareholder conflicts
the Arab States of the Gulf	Families should set rules for entry and exit the business and objective criteria. Fair treatment to both family and non-family members.	Discusses managerial succession in great detail. Ownership transfer is not explicitly discussed.	Suggests internal resolution, but family should be open to external conflict resolution.	Family constitution, Family assembly, Family council	Does not cover management explicitly, only through the family employment policy.	Depends on the complexity and structure of the business. Proposes several compositions of the board, where at least a third of the members is independent.	Only a shareholder agreement	Resolution of conflict of interest is briefly mentioned as a function of the shareholder agreement, but not further developed.
Germany	Owners to determine whether members of the family may work in or for the company and rules governing the selection process.	Besides standard succession planning recommends a contingency plan in case of an unplanned succession.	Not specified.	Not discussed, only basic principles	Recommends a clear understanding of whether and under what conditions family members may be appointed to and dismissed from the managerial position. A family vs non-family CEO is not covered.	Depends on the company size and the ownership structure complexity. Independent board members can improve the quality and objectivity.	Deals with the principal-principal agency conflict. Recommends the rules on the distribution of earnings which take into account the interest of all owners.	Not covered.
Hong Kong	Families should set rules for entry and exit the business and determine objective criteria, including a requirement to enter in a senior position.	Prefers taking over by the family members. Also recommends a contingency plan in case of an unplanned succession and external firm valuation.	Recommends a formal written agreement understood and accepted as fair by all family members.	Articles of association or a Family constitution	Recommends a clear understanding of conditions family members may be appointed to and dismissed from the executive position. A family vs non-family CEO is not covered, but the CEO should not be a controlling owner.	The board should be structured so that it makes the maximum contribution to the objective of preserving and creating wealth. From a specific firm size, governance should resemble one of the listed company.	Deals with the principal-principal conflict. Once non-family shareholders enter the business, the company interests must take preference over the family interests.	Proposes several mechanisms including dividend policy, buy-out and retirement agreements.

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Italy	Not discussed.	A committee representing the individual branches of the family should be responsible for the succession plan to ensure the balancing of interests.	Not specified.	Not discussed at all	Recommends that both family and non-family candidates should be considered for managerial positions, especially in the larger and more complex companies. The code is against CEO-chairman duality.	The board should be composed of a minimum of three members up to nine, depending on the size. At least one non-family, preferably independent, member.	Deals with the principal-principal agency conflict. Emphasizes the role of the board in a resolution of conflict involving the company and family assets.	Not covered.
Kosovo	No discrimination between family and non-family members. Recommends to explicitly provide the grounds for dismissing a family member and list all the criteria.	A formal succession plan prepared in the early phases ensures sustainability, provides a step-by-step process for CEO succession. Ownership transfer is not discussed explicitly.	A shareholding policy at early stages of development	Family constitution	Establishes conditions under which family members may be appointed to and dismissed from the managerial position. A family vs non-family CEO is not covered, but the CEO should not serve as a chairman.	For a board to be functional, its size should be between 5 to 9 directors. Independent members not only as a monitor but also for their knowledge and expertise.	Deals with the principal-principal agency conflict in detail.	Recommends a dividend and buyout policy that also considers a conflict of interest between family members in different roles and families in different development stages.
Pakistan	Warns against discrimination between family and non-family employees and recommends an objective policy for the employment of family.	The family council plays a significant role in proper succession planning and building a consensus in more complex families.	Emphasizes the role of the family council to handle conflicts. If necessary, a family should seek an external mediator.	Family constitution, Family council	A board should not hesitate to hire key executives from outside the family. A family vs non-family CEO is not cover, but a chairman should not serve as a CEO. However, a senior family member is usually nominated for a chairman.	Suggests a minimum of five directors and at least one non-executive and an independent member.	Deals with the principal-principal agency conflict. Recommends the rules on the distribution of earnings which consider the interest of all owners.	Besides personal conflicts, emphasis the role of family council to handle also conflicts of interest and structure of wealth.
Switzerland	Contracts of employment with family members should not differ from those with external employees.	Discuss managerial succession in great detail, proposes the same criteria for the family and non-family candidates and recommends an emergency plan in case of an unplanned succession.	Recommends resolving conflict internally, but in the case of severe conflicts, meetings can be chaired by an external chairperson or mediator.	Family charter, Family reunions and family council	While a code calls for objective criteria, when there are two or more suitable applicants, a family member should be given precedence. The CEO should not serve as a chairman.	The composition and size depend on the complexity and structure of the business. Independent members as a control mechanism and access to external expertise and experience.	Deals with the principal-principal agency conflict via shareholder agreements.	Does not describe the mechanisms but suggests that the active and the future generation should agree on the shareholder composition. The ownership should not become fragmented if at all possible.

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Turkey	The family council may determine the prerequisites for family member employment. Performance evaluation for a family is based on the family vs business-first approach.	The family council plays a major role in succession planning and regularly reviews a plan to adapt to current domestic and international developments.	Not specified	A family council, family board, advisory committee, Family constitution	Focuses on the professionalization process and responsibility for the selection process of the family members to take over the management. A family vs non-family CEO and the CEO-chairman duality are not covered.	Does not specify the composition but recommends members who are independent and have a different point of views.	Involvement of non-family shareholder raises concerns about the protection of assets and the need for a robust control system and audit.	An expanding family may lead to the greater diversity of family shareholders with various interests, emphasizes the role of the family board to address their concerns.

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The relationship between the CEO and the board is generally described in detail. One of the board duties is to monitor the CEO and hold him or her accountable for company performance. In order for the board to fulfil this duty, the authority of the CEO must be limited. For this purpose, international best practice for listed companies has long promoted two distinctive remedies.

First is to prevent the concentration of power in the hands of one person by allowing the CEO to also serve as a chairman of the board. Such an arrangement comes with the significant potential to abuse his/her position in self-serving behaviour. Apart from the German code, where CEO duality is accounted for in the two-tier governance model, all codes recommend separating these two positions of power.

The second solution is to appoint to the board independent non-executive directors, who do not have either an ownership stake in the business or relational ties with the CEO or controlling owners. Such an arrangement should not only strengthen board monitoring function but also improve the overall quality and objectivity of the board work and bring into the boardroom a different point of view. Similarly to the first remedy, all codes also follow the best practice for listed companies and recommend the presence of a board member who is independent of the family influence.

All codes without exception deal with the agency conflict between the family and non-family shareholders and suggest a means to prevent or resolve a conflict of interest. However, only a few (Hong Kong, Kosovo and Turkey) note that family shareholders are not a homogeneous group and address prevention of intrafamily conflict between family shareholders with different roles within the family business system (i.e. those working in the business and those who not).

Codes overwhelmingly support an alignment of management and ownership that helps to decrease traditional agency conflict and lower costs for management monitoring. The controlling stake, however, dilutes over the generations of the new family and non-family shareholders. Along with it, also a possibility to keep the decision-making power in the hands of a few family leaders.

Among proposed solutions, codes suggest dividend and pay-out policies or exit options for family shareholders. For instance, the Swiss code proposes to prune the family ownership complexity to prevent fragmentation of ownership.

4 Discussion and conclusion

This study aimed to investigate what governance codes recommend as the best practice for family businesses to help them overcome numerous governance challenges existing in the family business system and whether there is a universal approach to do so. For this purpose, we analysed eight governance codes for the privately held family firms.

Our comparative analysis focused on both approach and content of the codes and revealed that codes put different emphasis on individual systems, which demonstrably affected both the code approach and content. Despite the small sample size, our findings could hardly be more mixed. Although all of the codes have emerged from the professional entities in the private sector, they differ in the approach on how to provide family businesses with guidelines for the best practice. First and foremost, code issuers diverged in the very definition of a family business. However, they also prioritised different areas in which they view the strengths or weaknesses of a family firm. Some codes thus deal with the family involvement in the business and aim their recommendations primarily towards corporate governance; others consider a family perspective and recommend various instruments of family governance. Based on the identified differences across approach and content, we can conclude that there is no universal governance best practice provided by the codes addressed to the family-owned businesses.

This study contributes to the literature by analysing not only the content of the codes but also how the issuers delivered its recommendations. In this sense, there is hardly any overlap across the examined codes. Although the code issuers pursued the common objective to guide family firms in questions of governance, they all follow their path. None of them is built strictly on theoretical

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foundations of the single theory, but rather complement different perspectives, as necessary. This finding is further confirmed in the analysis of code content, as our finding suggests that there is no universal consensus on what represents the most demanding issues challenging the family firms.

It should be noted that this study has its limitations. First, the particular topics are presented and approach in a different manner across the sample. One code may dedicate only a brief paragraph to a certain topic, while others may discuss it in great detail. The elaborated recommendations may improve the overall quality of the code and increase the chances that the firm implements these recommendations. Second, our sample is not exhaustive. We investigated only codes in the English language and thus omitted four existing codes. It is possible that the extension of the sample by these non-English codes could result in a higher consensus in the content and approach with the examined codes (for instance, between the included German and the excluded Austrian codes). The geographical proximity of the sampled countries (the codes from Switzerland and Germany, or Switzerland and Italy) does not indicate a great deal of consensus. Nevertheless, future research could benefit from a broader sample in this sense.

The further implications for future research of this study add to an abundance of opportunities for further research on the governance codes in general. A first area worthy of further exploration is a firm-level analysis examining the degree of compliance with the code recommendations. Cuomo et al. (2016), in their recent review, drew attention to findings that family firms generally meet voluntary recommendations to a lesser extent than their non-family counterparts (Zeidan, 2014). Together with the evidence that smaller firms tend to comply less (Arcot, Bruno, & Faure-Grimaud, 2010; Hooghiemstra and Van Ees, 2011), prior findings suggest that the existence of code is merely the first step of many in improving governance best practices of family-owned businesses. A comparative analysis would be a welcome contribution to the discussion on the efficiency of voluntary compliance and differences between family and non-family firms in this aspect.

The second area of further interest are recommendations related to family governance. Despite its crucial role in the sustainability and success of the family business, family governance has been overlooked in the academic literature for long. Suess (2014), in her review dedicated to family governance mechanisms, found mere 19 published articles. Our analysis showed that in comparison with the relative uniformity of recommendations on corporate governance mechanisms, those belonging to family governance were addressed inconsistently across the sample.

The implications for practice, specifically for efforts to develop the governance code in other countries, can also be derived from this study. Content and approach of the codes could not be more diverse. Some of the codes were structured similarly as governance codes for listed firms; others delved into the reasoning of the proposed principles. These efforts explain what and why, but we believe that owners and managers in the privately held family firms would appreciate learning how. Family owners of the small and medium-sized businesses tend to avoid external advice on strategic challenges (Kubíček, Dofková, & Machek, 2020). A governance code being of voluntary nature may serve as an essential source of learning how to establish a suitable system of governance processes and structures above the legal minimum. Therefore, we encourage future code issuers to develop a more comprehensive step-by-step approach that facilitates the implementation of the proposed recommendations.

Moreover, a revealed variation in the family business definition within the sample warns against the generalisation across different parts of the world and the individual codes. The findings not only support an argument of heterogeneity among family firms (Neubaum, Kammerlander, & Brigham, 2019) but also calls for the configural approach to best practice development and consideration of the local institutional context (Filatotchev, Jackson, & Nakajima, 2013).

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