The Relationship between Family Power and Board Communication Quality in Turkish Public Family Firms

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Abstract

The role of boards gained significant importance after the presentation of OECD guidelines that made the boards as an indispensible corporate goevrnance mechanism for effective communication between owners and shareholders, strategic guidence for the company, supervision of top level management and accountability for the shareholders and other external stakeholders. In family businesses, boards are considered as one of the most important governance mechanisms in establishing an effective communication channel between shareholders and top management and also within the family. Yet, it is not easy to measure the board communication quality. This study attempts to investigate the effects of family members proportion in boards and ownership concentration on communication quality by using board meeting attendance rate as a proxy measure for communication quality. For this purpose, secondary data from the annual reports, corporate governance compliance reports and general information on capital and shareholders of 162 family firms enlisted in Istanbul Stock Exchange (BİST) was obtained and the correlation analysis was performed. The results implicate that there is no significant relationship between family members proportion in boards and board attendance and also no significant relationship has been found between ownership concentration and board attendance. Results only indicate that higher family ownership concentration increases the family members proportion in boards.

Key Words: Family Boards, Family Ownership, Percentage of Family Members on Board, Board Meeting Attendance Rate, Communication Quality

1. Introduction

High profile examples of corporate scandals such as Enron, Parmalat and many others during the 1990's and early 2000's have generated high levels of investor losses and public distrust. It has been alleged that board of directors of companies that are involved in these corporate scandals misconducted their professions by acting as "rubber stamps" in favour of top level managers or the dominant shareholders (Lin et al., 2014). To tackle this issue, OECD issued the Principals for Corporate Governance in 2004 to introduce a reference for companies worldwide in developing corporate governance mechanisms (Aguilera & Cuervo-Cazurra, 2004). In terms of the role of the board of directors, corporate governance mechanisms stipulate that the responsibilities of board members are to formulate strategic guidance for the company, effective monitoring of top level management, effective communication with shareholders and top management and accountability for the stakeholders and the shareholders (Luo, 2005), which may also have some effect on financial peformance (Ayrancı & Ayrancı, 2016).

In this context, the commitment of all board of directors to their supervisory responsibilities and to their communication with shareholders and top management are very important for board efficacy (Demb & Neubauer, 1992). In terms of the supervisory responsibilities, a number of studies have attempted to explore the individual performance of board of directors. As such, Ferris et al., (2003) posited the busyness hypothesis and suggested that the directors, who occupy different seats in diferrent companies' boards may encounter the difficulty in the sufficient fulfillment of the duties of a director due to the division of time of effort and time. Jiraporn et al., (2009) argued that multiple directorship may be the primary reason for the absences of board of directors at board meetings but they also claimed that independent members, equity ownership are irrelevant to the board attendance rate. Adams and Ferreira (2008) found that the board attendance positevly correlates with the board meeting fees. Finally, Lin, Yeh and Yang (2014) determined that higher board attendance increases financial performance that is calculated on the basis of debt ratio and return on assets (ROA).

However, all the aforementioned studies were conducted in non-family firms and they rather concerned with the supervisory quality of boards. Yet, supervisory quality is only one of the duties of boards and communication quality is especially important for family businesses where the board structure may be very different than their non-family counterparts (Arosa et al., 2010). In family boards, conflict often may arise since the board members play in the family as parents may emotionally clash with the objective role that has to be played in the business as employer. Hence, board members should communicate and interact with each other and management for overcoming potential family conflict (Lane et al., 2006). In order to maintain a sound communication, family businesses may need family board meetings that help to carry out regular and purposeful communication and thus decrease the family role conflict. Having frequent board meeting without a crises probably mean that the board has adequate communiaction quality (Sarbah & Xiao, 2015). As such, while in some family businesses, family members are more willing to participate the board meeting, in some family firms family members see the business as their backyards and they pay no attention in board attendance. Therefore, it may be worth of investigating how family power can affect board attendance, which remains still unknown in the existing family business literature (Chou et al., 2013). In this context, this study attempts to fill this void by analyzing the relationship between family power that is measured with family ownership and the percentage of board members in the board and board commitment to the communication that is measured with a proxy, namely the board meeting frequency. In the first part of the study, thoretical framework has been given that is followed by the methodology in the second part and findings in the third part.

2. Family Businesses and Family Boards

Despite the long years of research in the family business literature, there is still no consensus on the definiton of family businesses. An important reason for this lies in the fact that the structural attributes of families and thereby, family businesses vary across contexts (Neubauer & Lank, 2016). Moreover, as the perspectives of scholars identifying family businesses differ, so do the definitions. Below in table 1, some of the definitions in the literature relating to family businesses are listed.

Table 1: Family Business Definitions

Author	**Year**	**Definition**
Donnelly	1964	A privately held company that will be inherited and controlled by one or more of the proprietor´s children upon that person's retirement.
Chua, Chrisman, & Sharma	1999	A family business is a business owned and managed by a nuclear family.
Anderson & Reeb	2003	Businesses with high levels of family ownership, where the CEO is usually a family member and large numbers of family members dominate the company board.
Fernandez & Nieto	2005	Businesses with one or more family members occupying managerial positions.
Zahra	2005	Family firms are those businesses that reported some identifiable ownership share by at least one family and had multiple generations in leadership positions within them.
Kontinen & Ojala	2010	A firm in which the family controls the largest block of shares or votes, has one or more of its members in key management positions, and has members of more than one generation actively involved with the business.
Banalieva & Eddleston	2011	Are those in which the family is the largest shareholder, controlling at least 20% of shares, although they may be led by family or nonfamily executives.
Calabro, Torchia, Pukall, & Mussolino	2013	Family businesses are those with an identifiable share of family ownership and having multiple generations in the firm's leadership positions.
Stanley, Kellermanns, & Zellweger	2017	Businesses where family members have an ownership stake of 20 to 25% are distinguished as family firms from non-family ones.
Carney & Nason	2018	A business, that is governed and/or managed with the intention of pursuing the vision of the business held by a dominant coalition controlled by members of the same family.

As it can be understood from Table 1, whilst the definitions differ, the common ground is the focus on family ownership when defining family firms (Pindado & Requejo, 2015). Hence, for this study, the relationship between family power and board communication quality will be analyzed in firms where 20 to 25% of shares are owned by a single family, as in most of the studies on family firms, this cut off point has been used in defining such businesses (Stanley, Kellermanns, & Zellweger, 2017).

One of the most important characteristic of family business management is the employment of certain family members or relatives in the top management levels of the company, which can provide several advantages for the business such as solidarity of family members, dedication to work, quick decision making, easy access to domestic markets, stability in management, the continuity of management policies, ability to make long term business plans, employee loyality, autonomy, the ability to determine future, specialisation and dynamism (Goel & Jones, 2016). Yet, family businesses also face difficulties such as nepotism, patriarchalism, competition among the family members, which brings to mind the delegetion of authority to the non family managers, namely the professionals (Le Bretton-Miller & Miller, 2015). At this point, the board of directors are considered worthy of examination. Although the board is a neccessary resource and a strategically important body for all companies, often board meeting are not carried out in accordance with their real functions, they are generally kept idle and the board attendance rate can be very low (Grassi et al., 2016).

In family businesses, the functions of the board change along with the growth of the family and the business and they become more important and complex especially with the active involvement of the second and third generation family members and the need for working with professionals. In this respect, the members of the board should consist of qualified and competent professionals and family members, who can allocate their time and effort fort he best interests of the company (Revilla et al., 2016).

On the other hand, the family power, that can be measured with the family ownership and the percentage of family members on board (Astrachan et al. 2002) can seriously affect the board process and more specifically the communication quality. Usually, family boards provide an inner synergy between parents, siblings and intergenerational kin in helping and assisting each other in managing the business (Canella et al. 2015). Since the family board of directors are husbands and wives, brothers and sisters, uncles and nieces, grandparents and grandchilderen, there is an expected bond, which potentially lays the foundation of good business governance and smooth communication. In this connection family boards may be a useful instrument for openly communicating and mutually coordinating families (Caputo et al. 2018). Yet, the communication quality is not only the responsibility of family directors but also the outside directors. The outside directors are not shrinks. They are business people, who are appointed by the family to deal with business problems. For example, if they face with a family problem such as a competititon between the siblings for leadership, they may help move things forward by defining the leader's role and establising a communication process that accepts that both siblings want to be leaders. With a clear and open communication process, they will able to be successful even with the stubborness of the family members (Vandebeek et al. 2016).

Yet, measuring the communication quality of family boards is not easy and can only be measured by a proxy, namely board meeting frequency, which also depends on many factors such as the busyness and the willingess of board of directors (Vafeas 1999). In the context of the family businesses on the other hand, it can be argued that the board meeting frequency as a proxy of communication quality is effected by family power as a part of family influence. The family power manifests itself with family ownership and the percentage of family members in the board of directors (Astrachan et al. 2002). In this context, the following hypothesis has been posited.

H_1 : There is a relationship between family power and board communication quality in family businesses

3. Methodology

3.1 Sample

The data of the study was obtained from KAP (Public Disclore Platform). First, all the stock exchange companies that have the characterestics of a family business have been determined, where 20% to 25% of shares are owned by a single family. This cut off point in terms of ownership has been previously used by Stanley et al. (2017). 275 family firms enrolled in Istanbul Stock Exchange has been found that match this criteria. Using the ssecondary data by scanning the annual reports, corporate governance compliance reports and general information on capital and shareholders, the data of 162 family firms regarding the family ownership, the percentage of family members in the board of directors and attendance rate at board meetings has been collected. 162 family firms also represent the total population of 275 family firms at 95% confidence interval.

3.2 Measurement

In order to measure the independent variables in the model, which is the family power in the business, the family ownership and the percentage of family members in the board of directors are used (Astrachan et al. 2002). For measuring the dependent variable, which is the communication quality of the board, we used the prox measure that is the attendance rate at board meetings (Vafeas, 1999). The measurements were conducted with SPSS 24, that is a statistical tool to apply statistics in social sciences.

4. Findings

4.1 Descirptive Statistics

Descriptive statistics of the study is shown at Table 2 below.

Table 2: Descriptive Statistics

Variables	Mean	Standart Deviation	N
ownership	0,5881	0,20570	162
perc. of fam. members on board	0,3150	0,18418	162
Attendance rate	0,8846	0,17307	162

As it can be inferred from Table 2, family firms in Istanbul Stock Exchange have a high rates of family ownership 58% that is much more higher than the cut off point 20%. It is also evident that nearly one third of the board of directors (31%) in family firms in Istanbul Stock Exchange are family members and the attendance rate in board meetings with a 88% that is quite high.

4.2 Test of the hypothesis

To test the hypothesis of the research, spearman correlation analysis was conducted. The results of the correlation analysis is depicted below at Table 3.

Table 3: Correlation analysis results

Variables	ownership	perc. of fam. members on board	Attendance rate	N
ownership	1			162
perc. of fam. members on board	**0,261****	1		162
Attendance rate	0,085	-0,02	1	162

** Correlation is significant at the 0,05 level (2- tailed).

As it can be deduced from Table 3, there is no significant relationship between family power and board attendance rate, since both of the dimensions of family power, namely family ownership and percentage of family members in board are not significantly correlated with board meeting attendance rate at 0,05 level. According to this correlation analysis result, the hpothesis which propose that there is a relationhsip between family power and board communication quality in family businesses is rejected. Results only indicate that there is a significant positive correlation between family ownership and percentage of family members on board.

5. Discussion

As in all other companies, the board of family businesses play an important role in terms of smooth communication and efficient coordination. The level of efforts for communication quality performed by directors whether as family members or non-family members emphasize the difference between directors doing their utmost and directors simply acting the role of a rubber stamp. Such a difference is hard to find out without participating in board meetings. Hence, this study offers board attendance rate as a proper proxy to assess board communication quality. Yet, it can be also argued that in family business boards, where the board structure is different than non-family companies and conflicts may arise within the family as well as between family and non-family directors, family power can have a significant effect on board communication quality.

In this context, the aim of this study is to analyze the effect of family power, that is measured with family ownership and the percentage of family members in board and board communication quality, that is measured with board attendance rate. The results indicate that, the board attendance rate in family firms enrolled in Istanbul Stock Exchange (BİST) is very high and there is not a significant relationhsip between family power and board communication quality. At this point, it can be argued that, in accordance with the new enforcements of Turkish Capital Board (SPK) for good corporate governance principles, the board attendance rate of public family firms enlisted in BİST is not dependent on family power and whether family directors or professionals, board of directors of public family firms in BİST fulfill their duties in maintaining efficient communication quality. Yet, another finding of this study implicate that as the ownership of the family increases, the percentage of family members in the board increases as well. At this point, it can be argued that, the families with larger ownership concentration also try to dominate the boards with their members in order to better control the functioning of the board, although this has not a significant effect on communication quality.

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