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Boundary management strategies for governing family firms: A UAE-based case study

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ABSTRACT

Relying on boundary theory insights, this article aims to improve the existing knowledge base on optimal governance configurations in family-run companies operating in the United Arab Emirates (UAE) and uncover specific boundary management strategies that contribute to their longevity. Considering the distinctiveness of the UAE's cultural and regulatory environment, the paper uses a single case study approach for grasping contextual details that are beyond the reach of quantitative techniques. Boundary management strategies in the studied firm evolved from high family-business integration to instances when selected aspects of family and business domains (organizational culture, employee policies, and ownership and finances) permeated into each other at different levels along the integration–segmentation continuum to preserve an optimal governance configuration. The study offers several factors (founder's characteristics, cultural values, industry features, and intra-family succession uncertainty) to explain the evolving nature of boundary management strategies that contributed to the success of a UAE-based family firm.

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1. Introduction

Being the dominant form of economic entity worldwide and a key driver of national growth and development, family firms attracted increasing scholarly attention over the past decades (Miller, Minichilli, & Corbetta, 2013). The central topic of inquiry in the growing body of research on family businesses represents their widely documented underperformance and low survival rates (Bertrand & Schoar, 2006). Authors typically link family firm failures to weaknesses in succession planning ensuing from goals' misalignment among family members involved in the business, intergenerational conflicts over the use of corporate resources, and reluctance to consider appointing a professional CEO when an experienced intra-family successor is not available (Massis, Chua, & Chrisman, 2008).

Following many years of inconclusive results, scholars started to recognize that family firms are lacking an appropriate system of corporate governance needed for improving their ability to deal with challenges they face in their business and family domains (Eddleston, Chrisman, Steier, & Chua, 2010). Since the instances of bad family firm governance and their detrimental performance effects are paramount, these firms ought to be managed and controlled in a way that would benefit the long-term goals of the business rather than the private interests of selected family members. Yet, questions about the most suitable model of governing family-run organizations proliferate. How can family enterprises govern themselves to effectively balance the tension between the opposing family and business pressures? What strategies for managing family and business identities should be deployed to secure firm continuity and competitive advantage? The extant theory and empirical evidence for answering these questions are still underdeveloped.

Most governance studies have used quantitative methodologies to examine the effectiveness of contractual governance arrangements, such as board of directors' monitoring, in large samples of publicly-listed family-controlled enterprises (Chen & Nowland, 2010). Relying on the normative prescriptions of the agency theory, governance scholars have focused on exploring the means for reducing agency costs that are incurred due to the divergence of interests between family and non-family shareholders. Although recent literature suggests that governance structures of family-owned companies should reflect their distinctive characteristics (Navarro & Anson, 2009), the application of alternative theoretical lenses to the examination of the family-business duality as one of the most apparent idiosyncrasy of family firms remains limited (Mazzola, Sciascia, & Kellermanns, 2013).

From the boundary theory standpoint, the main reason for the demise of family firms is their inability to effectively balance work and family domains and to allow different elements to cross the erected boundaries and flexibly permeate into each other (Kreiner, Hollensbe, & Sheep, 2009). Since situations of complete segmentation or integration of family and business identities can disadvantage the governance system of family enterprises, what they necessitate is an enhanced comprehension of how to successfully leverage the benefits originating from both worlds to achieve higher levels of sustainability. According to Rothausen (2009), the increasing management literature on work-

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family fit might offer plausible solutions to companies that suffer from internal disagreements providing a rich conceptual grounding and theoretical resource for researchers in the family firm governance field.

In their conceptual article, Sundaramurthy and Kreiner (2008) call for in-depth qualitative investigations with the purpose of uncovering the means through which family enterprises succeed in managing the boundaries between their family and business domains. Qualitative studies are particularly useful for gaining a better understanding of how these boundaries evolve over time and what factors determine the change in the adopted boundary management strategy. Of critical importance for research conducted within the boundary theory framework is the question of what combinations of governance dimensions add most value and generate most positive consequences for family business performance (Bodolica & Spraggon, 2010).

Besides the theoretical enrichment, the field necessitates a broader cultural diversification to examine various context-dependent issues in the governance of family firms (Chen & Nowland, 2010). Although family-controlled enterprises in emergent markets could implement international corporate governance practices, they also need to develop specific arrangements that better suit the culture and business environment of the country where they activate (Welsh & Raven, 2006). Considering that most research has been conducted on Western samples, studies employing data from other national settings may be valuable because of their relative dearth. The cultural and regulatory context of the Middle East, and the United Arab Emirates (UAE) in particular, possesses unique features (Adawi & Rwegasira, 2011), but little is known about governance structures of family firms from this region of the world.

This article aims to answer all these recent calls made in the family-business governance literature. The paper undertakes an in-depth case study analysis to understand how UAE-based family enterprises are governed in the long run and uncover specific boundary management strategies that contribute to their prosperity. By examining the evolution of a family firm that has been successfully operating for over 30 years, the authors seek to contribute to the enhancement of the current knowledge base on effective governance practices of family-controlled companies located in the UAE. Based on the insights drawn from the boundary theory, the study uncovers specific governance combinations that might generate superior family firm outcomes and offers several factors to explain the evolution of adopted strategies for managing the boundaries between family and business domains in UAE family-run enterprises.

2. Literature review

2.1. Family business governance

The interconnectedness between corporate governance structures and family firms' performance and longevity has traditionally been studied from the economic standpoint of the agency theory (Spraggon & Bodolica, 2011). Although the unification of ownership and control in family businesses attenuates the typical principal-agent problems (Bodolica & Spraggon, 2009), the literature shows that important agency costs might be incurred due to divergent interests of shareholders who come from within and outside the controlling family, or who do and do not assume management responsibilities in the family business (Burkart, Panunzi, & Shleifer, 2003). Identifying good governance practices that could diminish the opportunistic behavior of managers-owners and benefit both family and non-family stockholders is the main focus of the current family firm governance research (Brenes, Madrigal, & Requena, 2011; Kuan, Li, & Chu, 2011). Adopting an appropriate governance structure is a complex task for family enterprises since it has to embrace elements from the trilateral corporate system including the family, other owners, and managers (Navarro & Anson, 2009).

Scholars have explored a variety of contractual (e.g., board size, directors' independence, leadership duality, appointment of a professional CEO, (non-)family managers' compensation) and relational (e.g., mutual trust, relational norms, executive stewardship) mechanisms for governing family-run organizations (Calabro & Mussolino, 2013; Eddleston et al., 2010; Giovannini, 2010). Yet, the effectiveness of different governance devices in enhancing the performance of family-owned firms is subject to an ongoing scholarly debate (Bodolica & Spraggon, 2010). Several contingency factors ought to be considered for explaining inconsistent findings reported in the family governance literature. The impact of governance on performance may be dependent on whether the founder, a descendant (Garcia-Ramos & Garcia-Olalla, 2011) or an external manager runs the business (Eklund, Palmberg, & Wiberg, 2013), the size of the company (Miller et al., 2013), the level of ownership by family members, the existence of multiple-large-shareholder structures (Cai, Luo, & Wan, 2012), the family-longevity goals (Kim & Gao, 2013), and the degree of shareholder protection that national regulatory institutions provide (Jiang & Peng, 2011).

Recognizing that specificities of national corporate governance regimes (Spraggon, Bodolica, & Brodtkorb, 2013) are important drivers of governance configurations in family firms, researchers started to diversify the extant West-focused literature. The governance of family firms in the Middle East attracted more attention due to the prevalence of this form of organization in the region where families control over 90% of economic activities (Welsh & Raven, 2006) and the key mechanisms of corporate monitoring are the state, majority shareholders, foreign investors, and large family groups (Piesse, Strange, & Toonsi, 2012). A study finds that four structural elements of governance system — family, ownership, leadership and business — positively influence the longevity of family businesses in Lebanon (Fahed-Sreih, 2009). Salloum, Bouri, and Schmitt (2013) show that dual leadership structures increase the probability of financial distress in Lebanese family-owned enterprises, whereas insider ownership exerts an opposite effect and outside directors' role is neutral. Since the Middle East is a vast region which is culturally and institutionally diverse (Welsh & Raven, 2006), the development of a unique Middle Eastern model of family firm governance may be premature (Piesse et al., 2012).

The corporate governance environment in the UAE possesses unique characteristics such as the lack of significant international institutional investments, non-prevalence of pension funds and their investment inactivity, high level of liquidity and demand for initial public offerings, predominance of concentrated family ownership structures, weak disclosure of governance-related information by listed companies, and limited existence of voluntary board of directors' committees (Adawi & Rwegasira, 2011). Yet, little is known about the specific governance configurations of UAE-based privately-held family firms apart from their informal character and reduced board diversification (Bodolica & Spraggon, 2012). This study seeks to achieve this objective by drawing upon the premises of the boundary theory.

2.2. Boundary theory

Boundary theory examines how individuals erect, preserve, and modify boundaries to deal with incompatible pressures ensuing from their work and home domains (Kreiner et al., 2009). To secure a successful career and a healthy non-work life, people make sense of the reality which surrounds them at the professional and personal levels and set specific roles they are willing to assume in each domain. The creation of physical, temporal, and psychological borders allows maintaining separations between realms in terms of tangible spaces where the execution of roles occurs, hours set for completing work and non-work duties, and behavioral attitudes needed for meeting the expectations in each sphere of life (Clark, 2000). The instituted borders hold real meanings and special significance, combining in unique ways that

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