Types of governance, financial policy and the financial performance of micro-family-owned businesses in Canada

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Abstract: The purpose of this study is to examine the impact of type of governance on financial policy and financial performance of micro-family-owned businesses in Canada. This study utilised survey research (a non-experimental field study design). Micro-family-business owners from Western Canada were asked about their beliefs, perceptions and feelings regarding type of governance, financial policy and financial performance. The findings of this study indicate that type of governance positively impacts financial policy. The results also show that both type of governance and financial policy positively impact the financial performance of the micro-family-owned businesses in Canada. This study contributes to the literature on the factors that affect the financial performance of micro-family-owned businesses by showing that financial performance is affected by the joint impact of type of governance and financial policy, and that financial policies differ based on gender of the CEOs and length of stay of the CEOs in Canada. The findings may be useful for financial managers, family business owners, stakeholders, investors and family business management consultants.
1 Introduction

Micro-family-owned businesses are likely to be:

1. very small businesses and employ less than five people (Industry Canada, 2012)
2. either sole proprietorships or partnerships.

Even though these firms continue to operate as sole proprietorships, in this study, since these business are passed on to descendants or to non-family members (the voting majority usually remaining in the hands of family members), anyone with financial interest in these micro-family businesses is called a shareholder. On that basis, family-owned firms are characterised as companies in which these shareholders belong to the same family and participate substantially in the management, direction and operation of their companies. Thus, using this shareholder model, in a micro-family business, the voting majority tends to be in the hands of the family; including the founders, who pass on their businesses to their descendants. Continuing to label the owners as shareholders, micro-family businesses are companies in which one family or more than one family, linked by kinship, close affinity or solid alliances holds a sufficiently large share of risk capital to enable the family to make decisions regarding strategic management [Gulzar and Wang, (2010), p.124].

According to Gulzar and Wang (2010), families have unique ethics, values, histories, cultures, backgrounds, unwritten rules and communication methods that are used to
manage their family business. Within that context, Rouf (2011) defines governance as the set of processes, customs, policies, laws, and institutions affecting the way the micro-family business are directed and controlled. The key purpose of this governance, in family businesses, is to promote accountability, transparency, fairness, disclosure and responsibility. Thus, in the context of this study, type of governance is defined as the structure, rules, and policies that are used to manage micro-family business.

The majority of family businesses fail because of poor financial management; in particular because of poor:

1. working capital management (WCM)
2. debt/equity policies (Sunday, 2011).

Therefore, any assistance provided to small businesses that increases their likelihood of prospering (even their survival) should be beneficial to the Canadian economy. Although a number of studies conducted on publically traded firms (including some of the family-owned businesses) show the relationship between type of governance, financial policy and financial performance, no studies were found that studied the relationships among these factors in micro-family-owned businesses in Canada (Abor, 2005, 2007; Drobetz and Grüninger, 2007; Tsai, 2012). Therefore, this study concentrates on the impact of type of governance on financial policies and financial performance of micro-family-owned businesses.

In general, poor governance has led to scandals which question the efficacy of governance practices in promoting transparency and accountability. However, this may not be the case in micro-family businesses because these firms are managed by family members. Although, governance theory has been around since 1932 (see Berle and Means, 1932) and capital structure theory has been around since 1958 (see Modigliani and Miller, 1958), there has not been much research conducted concerning those aspects of micro-family-owned businesses. Since debt/equity policy and WCM policy are among the most important factors that directly impact:

1. the financial performance of family businesses
2. shareholder wealth.

The purpose of this study is to find the impact of type of governance on debt/equity and WCM policies of micro-family-owned businesses in Canada. These policies are usually formulated by the board of directors and the CEO/owner/manager [if the CEO is also the chairman of the board (COB)].

Type of governance plays an important role in formulating financial policies, which in turn, play an important role in the financial performance of micro-family businesses. Financial policy, in the context of this study, is defined by WCM policy (WCMP) and debt/equity (DP) policies. According to Deloof (2003), the way that working capital is managed has a significant impact on firm profitability. As is shown in Table 4, WCMP is the management of current assets and current liabilities (Raheman and Nasr, 2007). WCM has been studied in numerous ways. Some researchers studied the impact of inventory management on WCM; others studied the management of accounts receivables.
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in ways that lead to profit maximisation (Besley and Meyer, 1987; Lazaridis and Tryfonidis, 2006). Such results indicate that there is an optimum level of working capital which potentially maximises returns.

This study contributes to the literature on the relationship between a firm’s type of governance, financial policy, and financial performance. The study shows that some of the findings found for publically traded firms relating CEO duality (CD), board size (BS), numbers of board meetings per year (MT), CEO experience (CEOE), length of stay (LOS), firm size (FS), gender, education, industry, WCMP, debt/equity policy and financial performance (FP) hold for micro-family businesses. This study also tests the relationship between LOS in a country and financial policy; a relationship which has not been previously tested.

2 Literature review

As is summarised in Figure 1, the following review of the literature is presented in support of the hypothesis that, controlling for the effects of firm size and industry, type of governance affects financial management policy (WCMP and DP), which in turn, affect FP.

2.1 Governance affects financial performance

Leadership in micro-family businesses either resides in one person or more than one person; usually two. Separate leadership happens when two individuals hold the formal positions of chairman and CEO or, at least, do not share the duties usually associated with those positions. Duality leadership takes place when one person holds the positions of COB and CEO or, at least, is responsible for the duties usually associated with those positions. Separate leadership curbs agency problems (Fama and Jensen, 1983), which in turn, enhances financial performance of the firm. Fama and Jensen (1983) indicate that firms have incentives to reduce agency costs to make better risk management decisions. Firms with separate leadership with smaller board sizes consistently make better decisions that lead to better performance relative to firms with the duality leadership structure [Amran and Ahmad, (2009), p.58]. Because the family’s wealth is so closely linked to the firm’s welfare, families have strong incentives to monitor managers and minimise the free-rider problem inherent with small, atomistic shareholders (Amran and Ahmad, 2009). However, this is not the case with family businesses; duality leadership leads to better performance than does separate leadership (Gill and Obradovich, 2012). The majority of the micro-family businesses are controlled (owned) by family members who also serve as managers, and because of this the agency problem is lower than in larger and publicly traded firms.

BS tends to be small in the micro-family-owned businesses which help these businesses make better business decisions (Yermack, 1996; Amran and Ahmad, 2009); that is, results in better FP and higher shareholder wealth. Table 1 shows the findings of previous authors on the impact of types of governance on FP.
Table 1  Previous findings on the impact of types of governance on financial performance

<table>
<thead>
<tr>
<th>Author</th>
<th>Findings</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kajola (2008)</td>
<td>Positive relationships between BS, CD and FP.</td>
<td>Nigeria</td>
</tr>
<tr>
<td>Jackling and Johl (2009)</td>
<td>That larger BS has a positive impact on performance.</td>
<td>India</td>
</tr>
<tr>
<td>Ramdani and Witteloostuijn (2010)</td>
<td>A positive relationship between CD and FP.</td>
<td>Indonesia, Malaysia, South Korea and Thailand</td>
</tr>
<tr>
<td>Gill (2012)</td>
<td>That BS negatively impacts the profitability and FS positively impacts profitability.</td>
<td>USA</td>
</tr>
</tbody>
</table>

In summary, the reviewed literature shows that types of governance affect the FP of firms.

2.2 Financial policy (WCM and leverage) affects financial performance

Poor financial policy (WCM and leverage) negatively impacts FP of the micro-family-owned businesses; therefore, it is important to have sound WCM and leverage policies. Modigliani and Miller (1958) argue that capital structure (leverage) does not matter in a perfect market; that is, it does not matter how much debt a company carries as long as the business generates a sufficient cash flow to make it likely to meet its interest obligations. However, in reality firms operate in imperfect capital markets where there are transaction costs, taxes, bankruptcy and agency costs; all of which make ‘determination of optimal capital structure’ an important question that firms need to solve in order to maximise their values (Autukaite and Molay, 2011). Shareholder wealth cannot be maximised without having sound:

1  WCM
2  debt/equity policies.

Autukaite and Molay (2011) show that an average firm carries 40% of its assets as current assets.

Many financial officers identify WCM as being very important to the value of their firms (Kieschnick et al., 2011). An effective WCMP:

1  reduces the dependence of the firm on outside financing by releasing cash for further investment
2  lowers financing costs by reducing outside borrowing
3  reduces risk, which in turn, leads to cheaper financing from both shareholders and lenders, resulting in a lower weighted average cost of capital (Autukaite and Molay 2011).

Consequently, sound WCM and debt policies improve FP and cash inflows, which in turn, increase the cash available for shareholders to withdraw. The problem with withdrawing cash is that it increases agency costs (Autukaite and Molay, 2011). Agency costs arise from inefficiency in the relationship between agents (managers) and principals
Types of governance, financial policy and the financial performance

(shareholders). However, agency costs are low in micro-family-owned businesses because these agents (managers) and principals (shareholders) are roles that may reside in the same family member.

Although, the above described agency problem is likely to be low in the micro-family-owned businesses, there may be conflict between the board and financial institutions that lend money to the micro-family-owned businesses. The shareholders (owners) of the micro-family-owned businesses may want to take higher risks than what is acceptable to financial institutions (bondholders). In support of this contention, it has been shown that since equity is a call option on the value of the firm’s assets, shareholders prefer riskier investments (Jensen and Meckling, 1976), which in turn, may cause conflicts between shareholders of the micro-family-owned businesses and the banks that lend money to those firms. In addition, asymmetric information between banking institutions (investors) and the management of the micro-family-owned businesses makes external financing costly [Myers and Majluf, 1984; Autukaite and Molay, 2011, p.5]. To minimise these issues, sound debt/equity policy is necessary.

The empirical studies on the relationship between financial policy and FP are described in Table 2.

Table 2 Previous findings on the impact of financial policy (WCMP and DP) on FP

<table>
<thead>
<tr>
<th>Author</th>
<th>Findings</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roden and Lewellen (1995)</td>
<td>A positive relationship between profitability and leverage.</td>
<td>USA</td>
</tr>
<tr>
<td>Wald (1999)</td>
<td>A negative correlation between leverage and profitability.</td>
<td>USA</td>
</tr>
<tr>
<td>Anderson et al. (2004)</td>
<td>That the cost of debt financing is inversely related to board independence and BS.</td>
<td>USA</td>
</tr>
<tr>
<td>Abor (2005)</td>
<td>That FP is positively associated with the leverage and FS.</td>
<td>Ghana</td>
</tr>
<tr>
<td>Lazaridis and Tryfonidis (2006)</td>
<td>A negative relationship between WCM and FP.</td>
<td>Greece</td>
</tr>
<tr>
<td>Raheman and Nasr (2007)</td>
<td>A negative relationship between WCM and profitability of the firm.</td>
<td>Pakistan</td>
</tr>
<tr>
<td>Garcia-Teruel and Martinez-Solano (2007)</td>
<td>That shortening the cash conversion cycle improves the profitability of the firm.</td>
<td>Spain</td>
</tr>
<tr>
<td>Falope and Ajilore (2009)</td>
<td>A negative relationship between net operating profitability and the average collection period, inventory turnover in days, average payment period and cash conversion cycle.</td>
<td>Nigeria</td>
</tr>
<tr>
<td>Gill et al. (2010)</td>
<td>A positive relationship between the cash conversion cycle and profitability.</td>
<td>USA</td>
</tr>
<tr>
<td>Gill et al. (2011)</td>
<td>A positive relationship between leverage and profitability.</td>
<td>USA</td>
</tr>
<tr>
<td>Gill et al. (2012b)</td>
<td>A negative relationship between leverage and FP.</td>
<td>Canada</td>
</tr>
</tbody>
</table>

In summary, the reviewed literature shows that types of financial policy affect the FP of firms.
2.3 Governance affects financial policy

Type of governance plays an important role in formulating financial management policies (WCMP and DP) of the micro-family-owned businesses in Canada. According to Akodo and Moya (2009), corporate governance has a significantly positive relationship with board roles, board roles have a significant positive relationship with board effectiveness, and contingency has a significant positive relationship with board roles and its effectiveness.

Empirical studies on the relationship between governance and financial policy are described in Table 3.

Table 3 Previous findings on the impact of types of governance on WCMP and DP.

<table>
<thead>
<tr>
<th>Author</th>
<th>Findings</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abor (2007)</td>
<td>Capital structure is positively associated with BS, board composition, and duality.</td>
<td>Ghana</td>
</tr>
<tr>
<td>Drobetz and Grüninger (2007)</td>
<td>Duality improves WCM.</td>
<td>Switzerland</td>
</tr>
<tr>
<td>Saad (2010)</td>
<td>Capital structure is positively associated with BS and negatively associated with duality.</td>
<td>Malaysia</td>
</tr>
<tr>
<td>Butt and Hasan (2009)</td>
<td>BS is negatively correlated with the debt to equity ratio.</td>
<td>Pakistan</td>
</tr>
<tr>
<td>Bokpin and Arko (2009)</td>
<td>BS is positively associated with capital structure choices.</td>
<td>Ghana</td>
</tr>
<tr>
<td>Gill et al. (2012a)</td>
<td>CD, BS and small business growth in sales positively impact debt/equity policy.</td>
<td>India</td>
</tr>
<tr>
<td>Tsai (2012)</td>
<td>Small and younger firms with stronger governance have policies favouring lower NWC.</td>
<td>Taiwan</td>
</tr>
</tbody>
</table>

In summary, this portion of the literature review showed that type of governance impacts WCM and debt/equity policies. However, relative to this study’s purpose of adding to the literature on family businesses, almost all the above cited studies were conducted on larger and publically listed firms. In addition, the above literature review shows that WCMP and leverage policies differ between countries.

2.4 Length of stay in a country affects financial policies

Sawers (2012) argues that culture affects attitudes toward WCM. Since Canada is a multicultural country with immigrants moving to Canada from all over the world, it is reasoned that micro-family business owners are likely to have different cultural backgrounds, values, and rules that impact their WCM and debt/equity policies (Gulzar and Wang, 2010). However, it is argued that their business management behaviours tend to change over time; that is, financial policies are likely to change with length of stay due to the impact of the Canadian society and culture.
In summary, the above literature review indicates that financial policy (WCM and leverage) affects FP, types of governance affects financial policy and FP, and LOE in a country affects financial policies. Because the micro-family-owned businesses differ from publically traded firms in type of governance, we expect that the findings will, to some extent, contradict the findings in the above literature review.

3 Methods

3.1 Measurement

To remain consistent with previous studies, measures pertaining to:

1. CD, BS, MT and CEOE were taken from Kyereboah-Coleman (2007)
2. FP were taken from Zehir et al. (2006)
3. DP and WCMP were taken from Beattie et al. (2006).

All the scalable items were reworded to apply to Canadian family business owners and thirty family business owners were surveyed to pre-test the scalable items for reliability and validity. Table 4 shows how the dependent, independent, dummy, and control variables were measured.

Table 4 Proxy variables and their measurements

<table>
<thead>
<tr>
<th>Measurement</th>
<th>Dependent variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial performance (FP)</td>
<td>Measured as the extent to which family business owners perceive the changes in:</td>
</tr>
<tr>
<td></td>
<td>1. net profit margin</td>
</tr>
<tr>
<td></td>
<td>2. return on investment</td>
</tr>
<tr>
<td></td>
<td>3. cash flows over the past three years.</td>
</tr>
<tr>
<td></td>
<td>Respondents were asked to indicate their agreement with each item, using a five-point Likert scale ranging from 'lowest' to 'highest'.</td>
</tr>
<tr>
<td></td>
<td>Cronbach alpha: 0.78</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Mediating variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working capital management policy (WCMP)</td>
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</tbody>
</table>

Note: $\mu_{ij} = \text{the error term}$
Table 4  Proxy variables and their measurements (continued)

<table>
<thead>
<tr>
<th>Mediating variables</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leverage or debt/equity policy (DP.)</td>
<td>Measured as the extent to which family business owners perceive that they maintain a level of leverage that:</td>
</tr>
<tr>
<td></td>
<td>1 improves company performance</td>
</tr>
<tr>
<td></td>
<td>2 maximises cash inflows.</td>
</tr>
<tr>
<td>Respondents were asked to indicate their agreement with each item, using a five-point Likert scale ranging from 'very inadequate' to 'very adequate'.</td>
<td></td>
</tr>
<tr>
<td>Cronbach alpha: 0.82</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Independent variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO duality (CD)</td>
</tr>
<tr>
<td>Board size (BS)</td>
</tr>
<tr>
<td>Meetings (MT)</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>CEO experience (CEOE)</td>
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<td></td>
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<tr>
<td></td>
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<tr>
<td>Gender (gender)</td>
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<tr>
<td>Education (Ed)</td>
</tr>
<tr>
<td>Length of stay (LOS)</td>
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<td></td>
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<table>
<thead>
<tr>
<th>Control (moderating) variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm size (FS_{i,t})</td>
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<tr>
<td></td>
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<td></td>
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<tr>
<td></td>
</tr>
<tr>
<td>Industry (Ind)</td>
</tr>
</tbody>
</table>

Note: μ_{i,t} = the error term
3.1 Results of pre-test

Factor analysis was conducted to see if all the items load on expected factors. All the items were loaded on the expected factors and a varimax rotation explained 88.97% of the variance in the scores on the underlying items.

3.2 Sampling frame, questionnaire distribution and collection

The current study sampled the population of Canadian family business owners living in the:

1. North Vancouver, Vancouver, Burnaby, New Westminster, Surrey, Delta, Richmond, Abbotsford, Victoria Island and Kelowna, British Columbia

2. Toronto, Ontario areas of Canada.

3.3 Sampling method, sampling issues and possible planned solutions

A convenience (non-random) sampling method was used to select and recruit the research participants. This method was chosen because the Canadian micro-family-business owners were reluctant to participate in the research. To avoid non-respondent sampling bias due to this reluctance to participate, data collection team members were educated to choose research participants who represented the population. For example, data collection team members were educated to ensure that they excluded all non-Canadian family business owners.

To achieve the convenience sample, an exhaustive list of Canadian family business owners’ names and telephone numbers in the lower mainland area of BC and the Toronto area of Ontario Canada was created. White pages, yellow pages and business directories were used to develop the information on the family business owners (e.g., names, telephone numbers and addresses). Survey questionnaire bundles coupled with an instruction sheet were provided to participating data collection team members for telephone interviews and/or distribution.

Chosen from the population were approximately 800 Canadian family business owners. A total of 225 surveys were completed. The response rate was roughly 28%. Approximately 60% of the surveys were completed via phone conversations. The remaining were completed through personal visits or mailed. Two of the completed surveys were non-usable.

3.4 Issues related to confidentiality of the research participants

The subjects were assured that their names would not be disclosed and confidentiality maintained. In addition, all the Canadian micro-family-business owners that mailed their stamped envelopes with their completed questionnaires to the researchers were requested not to disclose their names on their questionnaires. Since questionnaire completion was voluntary, family business owners could quit answering questions without fear of penalty. A consent letter specifically indicated that by completing the survey:
4 Analysis, findings, discussions, conclusions, limitations and recommendations for future research

4.1 Descriptive statistics

The explanation on descriptive statistics is as follows:

1. Industry: responses from non-manufacturer = 200; responses from manufacturer = 23
2. Male respondent = 154; female respondents = 69
3. Education: responses from undergraduate or less = 195; responses from masters or higher = 28
4. CEO duality: CEO only = 41; CEO and COB = 182
5. Board size: 3 or less = 202; 4 or more = 21
6. Cronbach alpha: DP = 0.962; WCMP = 0.972; DP = 0.971.

4.2 Direct effects of type of governance on FP

Figure 1 shows the effects of the mediators on the dependent factor are included in the model with the effects of the independent variables so that the effects of the mediating factors on the dependent factor can be viewed with independent variables being held constant.

The multiple regression analysis showed that BS, CD, DP, Ed and FS positively associated with FP of micro-family businesses in Canada. In addition, Bootstrapping was used draw from the 223 original respondents 500 samples of 300 (with replacement). With the removal of the colinearity in the model, the partial least squares regression coefficients indicate that BS, CD and Ed (holding the effects of the other independent variables and the effects of the mediating factors constant) are the only variables that affect FP.

Using MT as the independent variable, when there is no control for the effects of the other independent variables and the mediating factors, MT is related to FP (FP = 0.424, sig = 0.05); but when colinearity is present (B_{ij} = 0.019, t = 0.39) and when the effects of the other independent variables and the mediating factors are controlled (B_{ij.bcdefghijkl} = 0.005, t = 0.055), MT is NOT related to FP.

4.3 Direct effects of mediators on FP

In the multiple regression equation in which colinearity is present, only DP affects FP (B_{ab} = 4.79, sig = 0.01). And when the effects of the independent variables are held constant, neither DP (B_{ab.cdefghijkl} = 1.513) nor WCMP (B_{abc.bdefghijkl} = 1.167) affects FP.
4.4 Direct effects of type of governance on DP and WCMP

The multiple regression analysis showed that CD, Ed, CEOE, gender, LOS and MT are positively associated with DP of micro-family businesses in Canada. The multiple regression analysis also showed that CD, gender, LOS and MT are positively associated with WCMP of micro-family businesses in Canada.

4.5 Direct effects of the independent variables on FP compared to mediated effects of the independent variables on FP

A z-score and p-value were used to determine the strength of the mediation. The Sobel test was used to determine the strength of mediation after bootstrapping. Even though partial least squares regression coefficients between independent variables and mediators were significant; no relationships were found between the mediators and FP (the dependent factor), the mediated relationships were found to be no stronger than the direct independent variable to FP relationships. Therefore, it is concluded that mediation was not significant.
4.6 Moderation

Based on the review of the literature, it was proposed that FP is moderated by the size of the firms and their industries. These moderating effects are illustrated in Figure 1 as the interactions coloured as purple. Size of the firm and industry do not significantly affect the relationships between:

1. FP
2. DP
3. WCM policy.

4.7 Discussions

The perceptions and judgments of family business owners are the basis of findings of this study which examined the impact of type of governance on financial policy and FP of family businesses in Canada. The findings of this study showed that:

1. CD, Ed, CEOE, gender, LOS and MT are positively associated with DP
2. CD, gender, LOS and MT are positively associated with WCMP of micro-family businesses in Canada.

The findings on DP lend some support the findings of Abor (2007) and Gill et al. (2012a). But the findings contradict with the findings of Saad (2010). The findings on WCMP lend some support the findings of Drobeta and Grüninger (2007).

This study also found that when colinearity is not considered; BS, Ed, CEOE, gender, LOS and MT positively impact the DP of family businesses. But when colinearity is considered; CD, gender, LOS and MT positively impact the WCMP of micro-family businesses in Canada.

The multiple regression analysis results showed that BS, CD, Ed, and FS positively associated with FP of micro-family businesses in Canada. The findings relating the relationship between type of governance and FP lend some support to the findings of Kajola (2008), Jackling and Johl (2009), Ramdani and Witteloostuijn (2010) and Gill (2012). The findings related to relationship between BS and FP, however, contradict the findings of Gill (2012). The contradiction of results may be because majority of previous studies are related to the publically traded firms. The nature of micro-family-owned businesses and publically listed firms differ. For example, agency problems in micro-family-owned businesses are lower than the large publically traded firms.

The results showed that DP is positively associated with FP of micro-family businesses in Canada. This finding lends some support to the findings of Roden and Lewellen (1995), Abor (2005) and Gill et al. (2011). The findings related to the relationship between DP and FP contradicts with the findings of Wald (1999) and Gill et al. (2012b).

The findings related to the relationship between WCMP and FP do not lend any support to the findings of previous authors (Lazaridis and Tryfonidis, 2006; Raheman and Nasr, 2007; Garcia-Teruel and Martinez-Solano, 2007; Falope and Ajilore, 2009; Gill et al., 2010). The contradiction may be because of the economic environment in which firms operate. For example, previous studies were conducted by collecting data from
listed firms from different countries and economic environment of each country differs from each other.

This study found that when colinearity is not considered; BS, CD, gender, LOS and MT positively impact the WCMP, but when colinearity is considered; CD, gender, LOS and MT positively impact the WCMP of the micro-family-owned businesses. The findings also showed that when colinearity is not considered; the increase in the FP is positively associated with DP, BS, CD, Ed and FS, but when colinearity is considered; BS, CD and Ed positively impact the FP of the micro-family-owned businesses. The results showed that when colinearity is not considered; DP affects the FP, but when colinearity is considered; neither debt nor WCMP affects the FP of micro-family-owned businesses.

4.8 Conclusions

In conclusions:
1. CD, Ed, CEOE, gender, LOS and MT positively impact the DP
2. CD, Gender, LOS and MT positively impact WCMP
3. BS, CD, DP, Ed and FS positively impact FP of micro-family businesses in Canada.

These results differ to some extent between publically traded firms and the micro-family businesses. This may be because size of the firms, geographic locations of the firms, and type of governance of the firms differ.

4.9 Limitations

This study is limited to perceptions and judgments that asked for responses from fixed format, set-questions survey tools. The findings of this study may only be applicable to micro-family businesses. Therefore, results should be used with caution.

In practice, there may be implementation challenges of the findings. For example, CD may improve FP in one company, but not in another company. In similar manners, other findings may not be applicable to other companies. Higher number of board meeting may also backfire. Therefore, optimal number of board meetings required based on the needs of the micro-family businesses.

4.10 Future research

The research was limited to eleven cities. A broader geographic sampling to include more large urban and rural areas would better reflect the national profile. Additional variables such as CEO age should also be used in the future study.

References


Types of governance, financial policy and the financial performance


Notes
1 Even though the studied family businesses were predominantly sole proprietorships and partnerships, CEO is used to identify the owners/chief executive officers of those businesses.