

Effective Corporate Governance in Family Enterprises: Enhancing Business Performance, Democracy, ESG, Ecocentrism, Family Peace and Harmony

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Kariuki Muigua*

Abstract

This paper discusses how effective corporate governance can be realised in family enterprises. The paper observes that family enterprises play a fundamental role in modern economies providing opportunities for job creation, economic growth and societal well-being. Despite their fundamental value in the global economy, the paper observes that family enterprises face unique corporate governance challenges that can undermine their reputation, profitability and long-term stability. Consequently, the paper notes that there is need to inculcate the tenets of effective corporate governance in family enterprises. The paper proposes how the ideal of effective corporate governance in family enterprises can be attained by enhancing business performance, democracy, Environmental, Social and Governance (ESG), ecocentrism, family peace and harmony.

1.0 Introduction

Corporate governance is a framework that ensures that companies are run ethically, appropriately and transparently in order to protect the interests of all stakeholders including employees, shareholders, customers, and the society at large¹. It has been observed that corporate governance covers rules, policies, systems and processes used to ensure that organisations are directed and controlled in the best way possible². This concept focuses on establishing appropriate legal, economic and institutional environments that can facilitate and allow business enterprises to grow, thrive and survive³. Corporate governance is a wide concept that encompasses every sphere of management within an organization ranging from action plans and internal controls to performance measurement and corporate disclosures⁴.

* PhD in Law (Nrb), SC, FCI Arb (Chartered Arbitrator), OGW, LL. B (Hons) Nrb, LL.M (Environmental Law) Nrb; Dip. In Law (KSL); FCPS (K); Dip. in Arbitration (UK); MKIM; Mediator; Consultant: Lead expert EIA/EA NEMA; BSI ISO/IEC 27001:2005 ISMS Lead Auditor/ Implementer; ESG Consultant; Advocate of the High Court of Kenya; Professor of Environmental Law and Conflict Management at the University of Nairobi, Faculty of Law; Member of the Permanent Court of Arbitration (PCA) [October, 2026].

¹ What is Corporate Governance: Principles, Models, and Best Practices., Available at <https://www.mpeslearning.com/blog/corporate-governance> (Accessed on 16/10/2026)

² Corporate Governance Institute., 'What is Corporate Governance?' Available at https://www.thecorporategovernanceinstitute.com/insights/guides/what-is-corporate-governance/?srsltid=AU7gw4UN0YB5uRK_GWl7HW27a0TLlenIL8Tf5zul9OrQDcuYdmZHW40b (Accessed on 16/10/2026)

³ Private Sector Initiative for Corporate Governance., 'Principles for Corporate Governance in Kenya and a Sample Code of Best Practice for Corporate Governance' Available at https://www.ecgi.global/sites/default/files/codes/documents/principles_2.pdf (Accessed on 16/10/2026)

⁴ Chen. J., 'Corporate Governance Definition: How it Works, Principles, and Examples.' Available at <https://www.investopedia.com/terms/c/corporategovernance.asp> (Accessed on 16/10/2026)

Corporate governance therefore guides how companies are directed and controlled and how they manage relationships with their shareholders and stakeholders. By embracing good corporate governance, companies can be able to create an environment of trust, transparency and accountability which leads to positive reputation and long-term stability and profitability⁵. It has been observed that good and effective corporate governance is built on fundamental values and principles including risk management, responsibility, accountability, transparency, ethics and fairness⁶. By embracing these values and principles, companies can be able to successfully navigate regulatory requirements, promote fair workplace practices, manage both internal and external risks, enhance profitability, and prepare for future uncertainties⁷. Effective corporate governance is therefore necessary since it enables corporations to pursue their goals ethically, comply with laws and regulations, manage risks and carefully balance the interests of shareholders and wider stakeholders⁸. In particular, due to the immense powers that corporations yield at the global, regional and national levels, effective corporate governance is key in order to ensure that companies are run ethically and responsibly in order to support economic growth, social equity and environmental protection towards sustainability⁹.

This paper discusses how effective corporate governance can be realised in family enterprises. The paper observes that family enterprises play a fundamental role in modern economies providing opportunities for job creation, economic growth and societal well-being. Despite their fundamental value in the global economy, the paper observes that family enterprises face unique corporate governance challenges that can undermine their reputation, profitability and long-term stability. Consequently, the paper notes that there is need to inculcate the tenets of effective corporate governance in family enterprises. The paper proposes how the ideal of effective corporate governance in family enterprises can be attained by enhancing business performance, democracy, Environmental, Social and Governance (ESG), ecocentrism, family peace and harmony.

2.0 Corporate Governance Concerns in Family Enterprises

A family enterprise refers to a business entity where a single family holds a controlling financial stake and influence over business strategy, operations and governance¹⁰. It has been observed

⁵ Organisation for Economic Co-operation and Development., 'Corporate Governance' Available at <https://www.oecd.org/en/topics/policy-issues/corporate-governance.html> (Accessed on 16/10/2026)

⁶ Corporate Governance Institute., 'What is good corporate governance?' Available at <https://www.thecorporategovernanceinstitute.com/insights/guides/good-corporate-governance/?srsltid=AU7gw4UVjtkyg9kztf7BHtFjeVcwulnik6KciMVqYnpfMsMoVleHwAge> (Accessed on 16/10/2026)

⁷ Ibid

⁸ What is good corporate governance? 9 characteristics (with examples)., Available at <https://www.diligent.com/resources/blog/what-constitutes-good-governance> (Accessed on 16/10/2026)

⁹ Ibid

¹⁰ Family Business., Available at <https://www.sciencedirect.com/topics/economics-econometrics-and-finance/family-business> (Accessed on 16/10/2026)

that family enterprises are owned, directed and operated by family members, and are characterized by a strong emotional commitment, shared history, and a long-term outlook with the goal of maintaining the company for future generations¹¹. Family enterprises therefore refers to businesses that are managed by multiple family members across generations¹². Family enterprises usually focus on long-term growth, sustainability, profitability and preservation of family values and legacy¹³.

Family enterprises hold a fundamental and unique position in global, regional and national economies. For instance, it has been observed that family enterprises usually converge personal relationships, family heritage, and commercial pursuits, making such businesses dynamic, resilient and complex¹⁴. Family enterprises are anchored in core family values which guide every aspect of business including business strategy, governance structures, and relationships with stakeholders including employees and customers¹⁵. In addition, it has been observed that family enterprises focus on preservation of family legacies by passing down business values, practices and traditions from generation to generation thus fostering a sense of pride and unity across generations¹⁶.

It has been observed that family enterprises are one of the defining features of business landscapes across the world¹⁷. Many family enterprises have witnessed significant growth from founder-led operations into diversified business groups with domestic, regional and global interests¹⁸. From small local firms to vast international conglomerates, family enterprises have been identified as the backbone of prosperity, employment and innovation all over the world¹⁹. It is estimated that family-owned businesses contribute over 70 per cent of global Gross Domestic Product (GDP) and provide nearly 60 per cent of the world's employment²⁰. It has been pointed out that family ownership remains the dominant model for entrepreneurship and capital formation across the world demonstrating the key role that family enterprises play in the global

¹¹ Ibid

¹² Family Enterprise., Available at <https://andsimple.co/glossary/family-enterprise> (Accessed on 16/10/2026)

¹³ Ibid

¹⁴ The dynamics of a Family Enterprise: balancing tradition and innovation., Available at <https://www.imd.org/blog/family-business/family-enterprise/> (Accessed on 16/10/2026)

¹⁵ Ibid

¹⁶ Ibid

¹⁷ Preparing East Africa's Family Businesses for the Next Generation., Available at <https://www.jerseyfinance.com/insights/preparing-east-africas-family-businesses-for-the-next-generation/> (Accessed on 16/10/2026)

¹⁸ Ibid

¹⁹ How Family Businesses Drive The Global Economy., Available at <https://www.familybusinessunited.com/post/how-family-businesses-drive-the-global-economy> (Accessed on 16/10/2026)

²⁰ Ibid

economy²¹. Family enterprises have been described as not only economic entities but also custodians of heritage, culture, and community spirit across the world²². These businesses not only drive the global economy but are also widely involved in philanthropy by investing in key areas such education, health, water, and rural development, demonstrating their commitment to societal progress and well-being²³.

However, despite their role in driving the global economy, family businesses also face unique governance challenges that can undermine their success, reputation and long-term stability. For instance, it has been observed that many family enterprises usually witness growth and success during the early stages due to several favourable factors including a strong founder whose vision, business strategy, relationships and decision-making drive the enterprise forward²⁴. During the early stages of family enterprises, structures work well, decisions are made quickly and efficiently, trust in the business is high, and roles are clearly stipulated²⁵. However, it has been observed that as family enterprises expand across generations, sectors and jurisdictions, informal decision-making, limited board independence, and succession issues create governance risks and challenges²⁶. It has been observed that many family enterprises struggle with succession planning, a situation that can undermine their leadership and long-term stability²⁷. In addition, maintaining family peace and harmony is a key challenge for family enterprises since personal wrangles among family members can undermine business operations²⁸. Further, it has been observed that the desire to modernize and expand business operations can result in family enterprises losing family values and legacy²⁹.

In light of the foregoing concerns, it has been observed that effective corporate governance is a key agenda for family enterprises in order to ensure that value and legacy created by founders is protected, governed and passed on successfully to future generations³⁰. Effective corporate governance in family enterprises is key towards protecting business value and legacy while also preserving and nurturing family relationships³¹.

²¹ Ibid

²² International Council for Small Business., 'The Critical Role of Family Businesses in Local and Global Economies' Available at <https://icsb.org/expert/skye-blanks/the-critical-role-of-family-businesses-in-local-and-global-economies/> (Accessed on 16/10/2026)

²³ Ibid

²⁴ Beyond Building the Business: What Will It Take for Africa's Family Business Enterprises to Survive the Next Generation?., Available at <https://sbs.strathmore.edu/beyond-building-the-business-what-will-it-take-for-africas-family-business-enterprises-to-survive-the-next-generation/> (Accessed on 16/10/2026)

²⁵ Ibid

²⁶ Ibid

²⁷ International Council for Small Business., 'The Critical Role of Family Businesses in Local and Global Economies' Op Cit

²⁸ Ibid

²⁹ Ibid

³⁰ Preparing East Africa's Family Businesses for the Next Generation., Op Cit

³¹ Ibid

3.0 Fostering Effective Corporate Governance in Family Enterprises

Promoting good corporate governance is vital for the financial success, reputation, long-term stability and maintaining the legacy of family enterprises. Since most family enterprises fail or lose family control across generations, effective corporate governance plays a key role in separating family dynamics from commercial activities for long-term stability and success³². It has been observed that most family enterprises do not survive beyond their third generation of ownership due to failure to embrace principles of good corporate governance³³. Most family enterprises across the world have a short lifespan due to corporate governance challenges including lack of sustainable, transparent and accountable governance structures, unmanaged growth risks and failure to address succession³⁴.

Promoting effective corporate governance is therefore a key goal for the success of family enterprises. This goal can be achieved by enhancing business performance. In particular, through sound succession planning, family enterprises can enhance their business performance³⁵. For instance, it has been pointed out that without a clear succession plan, leadership vacuums can emerge in family enterprises, leading to internal conflicts and, in most instances, the collapse of the enterprise³⁶. Effective corporate governance therefore ensures a smooth and well-communicated transition process that enhances the long-term business survival and performance of family enterprises³⁷. Family enterprises have also been urged to uphold family values and legacy towards enhancing business performance³⁸. In particular, older generations should mentor younger generations sharing core family values, insights and practices in order to ensure long-term success and stability³⁹. In addition, by embracing innovation, including through diversifying across sectors and jurisdictions, family enterprises can put in place effective governance structures that can enhance business performance⁴⁰.

Democracy is another fundamental tenet that can ensure effective corporate governance in family enterprises. For example, by developing clear governance structures that separates business

³² Centre for Corporate Governance., 'Governance in Family-Owned Businesses: Family Governance Importance, Structure & Principles' Available at <https://ccg.or.ke/governance-in-family-owned-businesses/> (Accessed on 17/10/2026)

³³ Ibid

³⁴ International Finance Corporation., 'Family Business Governance' Available at <https://www.ifc.org/en/what-we-do/sector-expertise/corporate-governance/family-business-governance> (Accessed on 17/10/2026)

³⁵ Why Family-Owned Businesses Should Embrace Corporate Governance., Available at <https://www.mckayadvocates.com/post/why-family-owned-businesses-should-embrace-corporate-governance> (Accessed on 17/10/2026)

³⁶ Ibid

³⁷ Ibid

³⁸ Family Business Association., 'What is a Family Business?' Available at <https://familybusinessassociation.org/what-is-family-business> (Accessed on 17/10/2026)

³⁹ The dynamics of a Family Enterprise: balancing tradition and innovation., Op Cit

⁴⁰ Ibid

decisions from personal relationships, family enterprises can promote democratic practices that enhance their performance⁴¹. Embracing the tenets of democracy including open communication, transparent and accountable decision-making and reporting, defined responsibilities, and stakeholder engagement is key towards strengthening corporate governance in family enterprises⁴². Further, it has been observed that by utilising external advisory boards, family enterprises can enhance democracy through independent and impartial advice that can promote good corporate governance⁴³.

Complying with ESG tenets can also promote good corporate governance in family enterprises for profitability, good reputation, and long-term stability across generations. ESG provides a framework that can enable companies to promote sustainable investments that generate long-term financial returns while also taking into account the social and environmental impacts of economic activities and promoting transparency and corporate responsibility⁴⁴. It has been observed that ESG has increasingly become a fundamental approach in corporate governance with investors, regulators, the public and other stakeholders concerned with the environmental stewardship of companies, their social responsibility, and their governance systems and structures⁴⁵. By embracing ESG tenets, family enterprises and other businesses can effectively balance economic growth with environmental/ecological stewardship and social responsibility towards good corporate governance⁴⁶. For family enterprises, ESG provides an effective framework that can enable them meet their environmental, social and governance obligations. For example, through ESG, family businesses can be good stewards of the environment through sustainable and environmental-friendly business practices while also being socially-conscious through upholding fair labour practices and human rights and contributing to communal welfare by investing in education, healthcare, water and sanitation, and rural development⁴⁷. ESG can also enable family enterprises to put in place effective governance structures including separation of powers, defined ownership, succession planning, transparency, accountability, and responsibility⁴⁸.

⁴¹ Ibid

⁴² Centre for Corporate Governance., 'Governance in Family-Owned Businesses: Family Governance Importance, Structure & Principles' Op Cit

⁴³ The dynamics of a Family Enterprise: balancing tradition and innovation., Op Cit

⁴⁴ The 3 pillars of Sustainability: Environmental, Social and Economic., Available at <https://www.enel.com/company/stories/articles/2023/06/three-pillars-sustainability> (Accessed on 17/10/2026)

⁴⁵ Corporate Finance Institute., 'The Importance of ESG in Corporate Governance' Available at <https://corporatefinanceinstitute.com/resources/esg/importance-of-esg-in-corporate-governance/> (Accessed on 17/10/2026)

⁴⁶ Corporate Sustainability., Available at <https://www.ebsco.com/research-starters/business-and-management/corporate-sustainability> (Accessed on 17/10/2026)

⁴⁷ International Council for Small Business., 'The Critical Role of Family Businesses in Local and Global Economies' Op Cit

⁴⁸ Centre for Corporate Governance., 'Governance in Family-Owned Businesses: Family Governance Importance, Structure & Principles' Op Cit

Ecocentrism is another fundamental principle that can promote effective corporate governance in family enterprises. Ecocentrism is a broad world view that recognises and advocates respect for environmental systems as wholes, and their abiotic aspects, beyond world views that only focus on respect for living species including humans, animals and plants⁴⁹. Ecocentrism posits that everything in the natural world has its own intrinsic value and deserves moral consideration⁵⁰. It has been observed that ecocentrism is an ethical perspective that emphasizes the intrinsic moral value of nature advocating for its respect and importance independent of human interests⁵¹. By recognising humanity's duties towards nature, ecocentrism is central in efforts to solve environmental challenges facing the planet including climate change, biodiversity loss, environmental degradation and pollution towards safeguarding the rights of nature⁵². In particular, due to negative impacts of businesses on the environment, ecocentrism provides an approach that can strengthen corporate governance by requiring corporations to respect and nurture the environment for its intrinsic value. Ecocentrism shifts corporate activities from human-centred (anthropocentric) approaches that focus on profits to sustainable approaches that uphold the rights and value of nature⁵³. It is therefore necessary for family enterprises and other business to embrace ecocentrism through sustainable business practices including emission reduction, energy efficiency, pollution control, circularity, and investments in biodiversity conservation and ecosystem restoration towards upholding and respecting the rights of nature⁵⁴.

There is also need to embrace family peace and harmony towards effective corporate governance in family enterprises. Without peace and harmony, family enterprises tend to be involved in conflicts and disputes which undermine their business performance, reputation and long-term stability. Consequently, there is need to ensure family peace and harmony including through collaboration in decision-making processes, and respect for family values⁵⁵. In addition, family enterprises have been urged to embrace amicable dispute resolution processes including negotiation and mediation towards preserving relationships and maintaining family peace and harmony for long-term success and stability⁵⁶.

⁴⁹ Paul. C et al., 'Why ecocentrism is the key pathway to sustainability' Available at <https://mahb.stanford.edu/blog/statement-ecocentrism/> (Accessed on 17/10/2026)

⁵⁰ Proctor. J. D., 'Nature, Concepts of: Environmental and Ecological' Available at <https://www.sciencedirect.com/science/article/abs/pii/B0080430767041280> (Accessed on 17/10/2026)

⁵¹ Ecocentrism., Available at <https://www.ebsco.com/research-starters/science/ecocentrism> (Accessed on 17/10/2026)

⁵² Open Global Rights., 'Ecocentrism: A Refusal to Compromise on Ecological Integrity' Available at <https://www.openglobalrights.org/ecocentrism-refusal-to-compromise-ecological-integrity/> (Accessed on 17/10/2026)

⁵³ Araujo. C. L et al., 'Ecocentric management mindset: a framework for corporate sustainability' *Critical Perspectives on International Business.*, Volume 18, Issue 4 (2022)

⁵⁴ Ibid

⁵⁵ Centre for Corporate Governance., 'Governance in Family-Owned Businesses: Family Governance Importance, Structure & Principles' Op Cit

⁵⁶ The dynamics of a Family Enterprise: balancing tradition and innovation., Op Cit

4.0 Conclusion

Family enterprises form the backbone of the global economy driving innovation, job creation, and economic growth. However, due to the unique challenges they face, effective corporate governance is key towards the long-term success and stability of family enterprises. This can be achieved through enhancing business performance, democracy, ESG, ecocentrism, family peace and harmony.

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