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Identifying the Barriers to Effective Corporate Governance in Family-Owned Businesses: A Qualitative Exploration

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ABSTRACT

This study aims to identify and explore the key barriers that hinder the implementation of effective corporate governance practices in family-owned businesses in Iran. A qualitative, phenomenological research design was adopted to capture the lived experiences of individuals directly involved in the governance of family-owned businesses. Data were collected through semi-structured interviews with 23 participants, including business owners, board members, and senior managers from family firms in Tehran. Participants were selected using purposive sampling, and data collection continued until theoretical saturation was achieved. All interviews were transcribed and analyzed using thematic analysis, supported by NVivo software for coding and organization. The analytical process followed Braun and Clarke's six-phase framework to identify recurring patterns and key thematic structures. The analysis revealed three overarching themes: (1) familial dynamics and power tensions, (2) structural and procedural weaknesses, and (3) external and contextual constraints. Key subthemes included lack of role clarity, succession ambiguity, emotional decision-making, resistance to professionalization, absence of formal governance structures, weak accountability mechanisms, and regulatory incompatibility. These barriers were found to be deeply interrelated, with internal family dynamics reinforcing structural deficiencies and being further constrained by external institutional limitations. Participant narratives highlighted how emotional entanglement, informal practices, and cultural norms significantly compromised governance effectiveness. The study underscores the complexity of governance challenges in family-owned businesses, particularly within the Iranian context. Effective reform requires a multi-level strategy that addresses familial behaviors, institutional gaps, and cultural attitudes toward formal governance. The findings offer practical insights for family business leaders, policymakers, and advisors seeking to professionalize governance in FOBs across similar emerging market contexts.

Keywords: Corporate governance; Family-owned businesses; Iran; Qualitative research; Organizational barriers; Succession planning; Informal decision-making.

Introduction

Family-owned businesses (FOBs) are critical contributors to national economies across the globe, playing a vital role in employment, innovation, and wealth creation (De Massis et al., 2018). They constitute the majority of enterprises in both developed and developing economies, and in countries such as Iran, family businesses are estimated to account for more than 80% of all private sector enterprises (IFC, 2018). Despite their widespread presence and importance, many FOBs struggle with implementing effective corporate governance practices. Governance challenges in these organizations are often rooted not only in managerial shortcomings but also in complex familial structures and dynamics that differentiate them significantly from non-family firms (Le Breton-Miller

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& Miller, 2018). This study seeks to explore the specific barriers to effective corporate governance in FOBs in the Iranian context, highlighting the interplay between family influence and structural limitations.

Corporate governance, broadly defined as the system by which companies are directed and controlled, is essential for ensuring accountability, strategic alignment, and long-term sustainability (OECD, 2015). In the case of FOBs, the duality of ownership and management by family members adds an additional layer of complexity to governance systems. While family involvement can promote trust, commitment, and continuity, it can also lead to problems such as nepotism, resistance to external oversight, and emotional decision-making (Carney, 2005; Schulze et al., 2003). The governance structures in FOBs often evolve informally, shaped more by family dynamics and traditions than by institutional frameworks or professional norms (Miller & Le Breton-Miller, 2006). This can weaken accountability mechanisms, hinder transparency, and reduce adaptability in the face of market volatility or generational transitions.

The literature on corporate governance in family firms has identified a number of unique challenges. One prominent issue is the tendency to centralize authority within the founder or a dominant family coalition, leading to authoritarian decision-making and a lack of participatory governance (Chrisman et al., 2007). This centralization is often accompanied by a reluctance to adopt formal governance mechanisms such as independent boards or external audits, which are perceived as threats to family autonomy (García-Ramos & García-Olalla, 2011). Additionally, family businesses often lack clear succession plans, resulting in uncertainty, conflict, and discontinuity during leadership transitions (Sharma et al., 2001). These issues are frequently exacerbated by interpersonal tensions, role ambiguity, and a preference for loyalty over competence in key appointments (Cruz et al., 2012).

In emerging economies such as Iran, the governance challenges facing FOBs are further intensified by institutional voids, regulatory inefficiencies, and cultural norms that privilege informal arrangements over formal structures (Khavand, 2020). Iran's business environment is characterized by weak enforcement of corporate laws, limited access to professional advisory services, and a pervasive culture of trust-based, family-centered management (World Bank, 2022). In such contexts, the absence of well-defined legal frameworks and market-based monitoring mechanisms creates a governance vacuum that FOBs often fill with personalized, family-driven practices. While these may offer short-term stability, they often fail to support long-term resilience and scalability (Jorfi et al., 2017). Moreover, many family businesses in Iran operate within tightly knit kinship networks where formal accountability and transparency are seen as secondary to loyalty, discretion, and tradition.

Scholars have emphasized the importance of distinguishing between family influence that is "familiness-enhancing" and that which is "familiness-constraining" (Zellweger et al., 2010). The former promotes stewardship, reputation-building, and a long-term orientation, while the latter introduces rigid hierarchies, emotional biases, and conflict avoidance. In Iran, empirical research on the barriers to corporate governance in FOBs remains scarce, despite increasing policy and academic attention to the importance of enhancing business resilience and institutional modernization. Most existing studies focus on general governance challenges or family succession, with limited qualitative inquiry into the everyday experiences and perceptions of family business leaders navigating these governance hurdles (Moradi & Entezari, 2019).

Furthermore, global research often overlooks the sociocultural and regulatory nuances of non-Western economies, where informal governance mechanisms are deeply embedded in social and familial relationships (George et al., 2020). This gap calls for contextually grounded, qualitative explorations that can uncover how governance challenges manifest in practice—particularly in environments where institutional support is weak and cultural expectations heavily shape organizational behavior. By focusing on the lived experiences of family business leaders in Tehran, this study aims to provide a nuanced understanding of the socio-organizational constraints impeding the implementation of effective governance systems.

A key assumption of this research is that barriers to corporate governance in family businesses are multifaceted and situated at the intersection of family dynamics, organizational structures, and external conditions. These dimensions often interact in ways that create persistent governance bottlenecks. For example, an authoritarian founder may resist formalizing decision-making structures due to both emotional attachment to the business and mistrust of external interventions. Simultaneously, a lack of state-led support for succession planning or corporate training can reinforce these internal weaknesses. Therefore, a comprehensive understanding of governance challenges must consider both endogenous (family and organizational) and exogenous (institutional and cultural) factors (Daspit et al., 2021).

This study adopts a qualitative, phenomenological approach to explore the barriers to effective corporate governance in Iranian FOBs. Using semi-structured interviews with 23 participants—including owners, managers, and governance advisors from family businesses in Tehran—the research seeks to identify recurring themes and narratives that reveal the depth and complexity of governance constraints. In contrast to survey-based studies that quantify variables of governance performance, this inquiry provides rich, descriptive insights into how these barriers are experienced, interpreted, and negotiated by those directly involved in the governance process.

By illuminating the nature and origins of these barriers, the study contributes to both academic theory and practical policymaking. Academically, it enriches the literature on corporate governance in family businesses by foregrounding context-specific dynamics in a non-Western setting. Practically, the findings offer guidance to family business leaders, consultants, and policymakers seeking to promote governance reform and business sustainability in similar environments. As Iranian businesses increasingly face pressures to globalize, attract investment, and adopt best practices, understanding and overcoming these governance barriers is more urgent than ever.

In sum, this study aims to answer the following research question: *What are the key barriers to effective corporate governance in family-owned businesses in Iran, and how do these barriers emerge from familial, structural, and contextual dynamics?* By addressing this question through qualitative inquiry, the study contributes to the broader effort to strengthen family business governance and foster long-term economic development.

Methods and Materials

Study Design and Participants

This study employed a qualitative research design using a phenomenological approach to explore the barriers to effective corporate governance in family-owned businesses. The phenomenological method was deemed appropriate as it allows for a deep understanding of the lived experiences and perceptions of individuals directly engaged in corporate governance processes within these businesses. The participants comprised 23 individuals selected through purposive sampling. These participants included business owners, board members, senior managers, and governance advisors who were directly involved in governance practices of family-owned enterprises based in Tehran, Iran.

Inclusion criteria required that participants be affiliated with family businesses that had been operating for at least ten years and had undergone formal or informal governance transitions. Efforts were made to ensure diversity in terms of business size, industry sector, and generational involvement (e.g., first-generation vs. second-generation leadership). All participants were informed of the voluntary nature of their participation and provided informed consent prior to data collection.

Data Collection

Data were collected through semi-structured, face-to-face interviews, allowing for flexibility in exploring emergent themes while maintaining consistency in the core set of questions. An interview guide was developed to explore key areas such as governance structures, decision-making dynamics, conflict resolution mechanisms, succession planning, and external regulatory interactions. Sample questions included: “What challenges have you faced in implementing formal governance structures?” and “How does family involvement affect the objectivity of governance practices?”

Each interview lasted approximately 45 to 70 minutes and was audio-recorded with participants’ permission. Interviews were conducted in Persian and later transcribed verbatim. Data collection continued until theoretical saturation was reached—that is, when no new themes or insights were emerging from subsequent interviews, which occurred by the 23rd interview.

Data analysis

Data were analyzed using thematic analysis with the aid of NVivo software (version 12) to ensure systematic organization and coding of the qualitative data. Following Braun and Clarke’s (2006) framework, the analysis proceeded in six stages: (1) familiarization with the data through repeated reading of transcripts, (2) generation of initial codes, (3) searching for themes, (4) reviewing themes, (5) defining and naming themes, and (6) producing the final report.

Coding was both inductive and iterative, allowing themes to emerge from the data while also reflecting the research questions. To enhance the credibility of the findings, multiple researchers were involved in the coding process, and discrepancies were resolved through discussion. Additionally, member checking was conducted with a subset of participants to validate the accuracy of interpretations. Thematic categories were finalized after cross-verifying the data with initial codes and illustrative quotations, ensuring a coherent narrative grounded in participants’ lived experiences.

Findings and Results

Theme 1: Familial Dynamics and Power Tensions

One major subcategory that emerged was Lack of Role Clarity, which significantly hindered governance effectiveness. Many participants reported blurred lines between operational and strategic roles due to overlapping responsibilities and informal authority structures. For instance, one interviewee noted, “We never really defined who’s in charge of what; it just depends on who’s available or who speaks the loudest.” This ambiguity fostered inefficiency and accountability issues within the firm.

Another recurrent barrier was Succession Ambiguity, where participants revealed uncertainties and conflict surrounding leadership transitions. Several second-generation members expressed frustration over the lack of clear succession protocols. A respondent said, “My father talks about retirement, but there’s no actual plan. We’re just waiting—and guessing.” This often led to tension and indecisiveness in critical business moments.

Emotional Decision-Making was frequently identified as a challenge. Business choices were often guided by family loyalty and emotional considerations rather than rational analysis. A senior executive shared, “We tend to prioritize keeping the peace over doing what’s right for the business.” This emotional entanglement inhibited objective governance and sometimes led to costly decisions.

The Dominance of Founders also emerged as a consistent theme. Founders were described as holding onto control even when their involvement hindered strategic development. A younger family member noted, “He built the company from scratch, so he thinks no one else can do it right. It’s hard to argue with that.” This centralized power structure made it difficult to implement collective or modern governance practices.

Interpersonal Conflicts within the family—particularly sibling rivalries and spousal disagreements—were also cited. Such disputes often spilled over into boardroom decisions, creating tension and mistrust. One participant reflected, “We don’t always argue as managers—we argue as brothers, and that’s the problem.” These emotional dynamics complicated professional collaboration.

Nepotism was described as another systemic issue. Participants highlighted a preference for hiring family members regardless of qualifications, thereby undermining professionalism and demotivating skilled outsiders. As one manager put it, “You could be the best person for the job, but if you're not family, your resume goes to the bottom of the pile.”

Finally, Confidentiality Within the Family was seen as a barrier to inclusive governance. Strategic information was often circulated informally among select family members, sidelining key managers. A participant observed, “Decisions are often made over dinner, and then the rest of us are expected to implement them without knowing the full picture.”

Theme 2: Structural and Procedural Weaknesses

A critical subcategory under this theme was Lack of Formal Governance Structures. Many firms did not have documented policies, formal boards, or defined channels of decision-making. One participant remarked, “We hold meetings only when something goes wrong. Otherwise, everything is done on the fly.” This informality led to inconsistent and reactionary governance.

Weak Accountability Mechanisms were also highlighted. Interviewees stated that performance evaluations and internal audits were rare or nonexistent, making it hard to track progress or enforce standards. A CFO mentioned, “No one really asks tough questions here. We just trust each other and move on.” Such trust, while valued, often replaced necessary oversight.

Another barrier was Inadequate Strategic Planning. Most businesses were found to operate without long-term goals, focusing instead on immediate issues. A respondent shared, “Our strategy is usually decided based on this month’s cash flow.” This short-termism limited growth and adaptability.

Participants also described Informal Decision-Making Processes, where approvals and actions occurred without records or formal discussions. One executive explained, “We make big decisions over a quick phone call or just a nod during lunch.” This hindered transparency and institutional learning.

The Limited Professionalization of operations was another issue. Many family firms resisted hiring external professionals, believing they lacked trust or loyalty. “We’d rather train a cousin than hire an outsider with a fancy degree,” said one owner. This mindset curbed organizational development.

Lastly, the Absence of Conflict Resolution Mechanisms left families unprepared to manage disputes. Participants admitted that conflicts were often ignored or resolved emotionally. One manager confessed, “We either bottle things up or explode at family gatherings. There’s no middle ground.”

Theme 3: External and Contextual Constraints

One prominent subcategory was Regulatory Incompatibility. Participants frequently described the misalignment between local commercial laws and the realities of family business operations. “Sometimes the rules are so rigid that they don’t make sense for a family-run company,” one CEO noted. This created friction in aligning governance with legal frameworks.

Limited Access to Advisory Resources was another constraint. Many interviewees lacked exposure to expert governance advisors or training opportunities. As one participant mentioned, “We know we need help, but we don’t know where to find it—or we can't afford it.” This lack of guidance impeded reform efforts.

Cultural Norms Favoring Informality also shaped governance behaviors. Several respondents noted that involving external auditors or setting up formal boards was seen as a sign of mistrust within the family. “Our culture values loyalty and face-saving. Having outsiders in the boardroom feels like betrayal,” shared a second-generation member.

The theme also included Market Pressures and Volatility, especially in response to economic instability in Iran. Participants reported that fluctuating market conditions often forced short-term responses over long-term governance improvements. “We’re too busy surviving to think about governance,” said one business owner.

Lastly, Lack of Succession Planning Support emerged as an external limitation. Respondents stated that public or private initiatives for guiding generational transitions were minimal or inaccessible. “There’s no one teaching us how to pass the torch. It’s trial and error,” observed a third-generation successor.

Discussion and Conclusion

The present study explored the multifaceted barriers that hinder effective corporate governance in family-owned businesses (FOBs) in Iran. The findings revealed three core themes: familial dynamics and power tensions, structural and procedural weaknesses, and external and contextual constraints. Each theme was composed of several interrelated subcategories that reflect the lived experiences of participants, emphasizing the complexity and interplay between internal and external governance challenges. These findings align with and extend the existing literature on family business governance, particularly in emerging markets where institutional supports are often lacking, and where familial and cultural norms strongly influence managerial behavior.

One of the most significant findings was the pervasive influence of **familial dynamics and power tensions**, particularly the lack of role clarity and emotional decision-making. These results are consistent with prior studies showing that FOBs frequently suffer from overlapping roles, where family members often assume dual or undefined responsibilities, creating confusion and inefficiency (Cruz et al., 2012). The centralization of power in the hands of the founder, as reported by many participants, also aligns with Miller and Le Breton-Miller’s (2006) observation that founders often exhibit a reluctance to delegate, hindering the development of participative and professional governance systems. Emotional decision-making, driven by loyalty, fear of conflict, or personal biases, further corroborates the findings of Schulze et al. (2003), who noted that affective relationships often override rational governance decisions in FOBs. Nepotism and interpersonal conflict were also prominent, reinforcing the view that family involvement, when not professionally managed, can weaken meritocracy and reduce the objectivity needed for sound governance (Carney, 2005).

Another core finding was the **absence of formal governance structures and procedural discipline**, which confirms longstanding critiques in the literature. The lack of formal boards, strategic planning, performance monitoring, and conflict resolution mechanisms mirrors the concerns raised by Chrisman et al. (2007), who argued that many FOBs avoid codified systems because they perceive them as unnecessary or invasive. The study revealed that decision-making processes were often informal and undocumented, relying heavily on verbal agreements and ad-hoc approvals. This reinforces findings by García-Ramos and García-Olalla (2011), who indicated that family businesses often equate formality with a loss of control. Furthermore, the study showed a strong resistance to professionalization, with hiring and promotion decisions largely based on familial ties rather than competencies. This result echoes Sharma et al. (2001), who warned that resistance to external expertise and systems can limit organizational adaptability and lead to stagnation, especially during generational transitions.

The third theme, **external and contextual constraints**, highlights the broader institutional and cultural environment in which Iranian FOBs operate. Participants frequently cited the incompatibility of regulatory frameworks with the realities of family business operations. This supports Khavand's (2020) findings on the weak alignment between Iran's commercial laws and the needs of the private sector. Regulatory rigidity and lack of succession planning support create an environment in which informal practices become normalized. Cultural norms, such as aversion to external oversight and preference for loyalty over formal accountability, also played a significant role. These align with the work of George et al. (2020), who emphasized the importance of sociocultural context in shaping governance behaviors in emerging economies. Market instability and weak advisory infrastructure further constrain FOBs' ability to reform governance practices, reinforcing Zellweger et al.'s (2010) argument that environmental pressures often exacerbate internal governance weaknesses in family firms.

Importantly, the results underscore how **familial, structural, and external barriers are deeply intertwined**. For example, the dominance of the founder and the absence of succession planning were often jointly attributed to both emotional attachment and lack of external support. Similarly, weak strategic planning was not just a procedural gap but also a cultural and emotional phenomenon—stemming from a short-term orientation reinforced by both market volatility and founder control. This interdependence supports the theoretical framework of Daspit et al. (2021), which posits that effective governance in family firms requires a systemic understanding of both internal capabilities and external influences.

Moreover, the study provides new insights specific to the Iranian context. While many of the identified barriers are common across family businesses globally, the *magnitude and expression* of these barriers in Iran are shaped by unique institutional and cultural factors. The lack of access to governance education, advisory networks, and peer benchmarking opportunities emerged as particularly acute challenges, suggesting a gap between theoretical governance models and practical resources available to business owners. The findings also reveal a form of "governance fatalism," in which participants expressed resignation to the idea that governance reform is difficult, risky, or culturally incompatible. This mindset, unless addressed, could significantly undermine efforts to modernize FOBs in Iran and similar economies.

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Authors' Contributions

All authors equally contributed to this study.

Declaration of Interest

The authors of this article declared no conflict of interest.

Ethical Considerations

All ethical principles were adheried in conducting and writing this article.

Transparency of Data

In accordance with the principles of transparency and open research, we declare that all data and materials used in this study are available upon request.

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