Perceptions of Governance Risks in Maltese Family-Owned Businesses

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Abstract

Family businesses have been operating for a significant period of time and continue to form a central part of the global economy. This study observes the perceptions of governance risks in Maltese family-owned businesses, particularly focusing on limited liability companies operating in the manufacturing industry. Governance practices in family firms often remain informal and dependent on family dynamics. Thus, these governance risks expose family firms to risks that affect both the daily operations and long-term sustainability.

This study adopted a mixed methodology approach. A questionnaire-based survey was distributed to the Maltese manufacturing family-owned firms, provided quantitative analysis on governance practice and awareness of risks. In parallel, semi-structured interviews with regulators, advisors, auditors and representatives from national institutions provided a rich qualitative data. The integration of the survey and interview data, through a triangulation discussion, ensures that the findings reflect both internal and external viewpoints.

The results highlight strategic policy risk as the most concern risk. Many firms adopt an operational mindset, focusing on immediate problems rather than a long-term strategy. Succession planning is often avoided until crises emerge, creating instability and intergenerational conflict. Other mentioned risks include nepotism, lack of accountability, resistance to change, and limited use of external oversight.

The findings suggest that stronger governance structures such as family constitutions, advisory boards, and external directors can reduce conflict and improve decision-making. However, cultural attitudes and limited resources remain major barriers. Moreover, outreach programmes, education, and financial incentives are needed to support these family firms.

This study shows that addressing governance risks proactively is essential for resilience, succession, and long-term growth. Strengthening governance in family businesses is not only a matter of compliance, but a key step for ensuring survival and continuity of the business.

Keywords: Family Businesses, Corporate Governance, Governance Risk, Sustainability

Dedication

With love and gratitude, I dedicate this dissertation to all my family and friends for their unwavering love and support.

Declaration of Authenticity

I, Corinne Deguara, hereby declare that I am the legitimate owner author of this Dissertation and that it is my original work. No portion of this work has been submitted in support of an application for another degree or qualification of this or any other university or institution of higher education.

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Chapter 1: Introduction

1.1 Introduction

Family businesses have been operating for a significant period of time and are currently the most prevalent business model (Astrachan & Shanker, 2003). They represent the backbone of the global economic environment (Westhead & Cowling, 1998).

In Europe, almost 14 million entities are registered, generating more than half of the European Union's Gross Domestic Product (GDP), and providing jobs for more than 60 million individuals (BNP Paribas, 2023). In the Maltese context, family businesses are essential to the sustainability of our economy. During a conference speech in 2023, organised by The Malta Chamber the Minister for Energy and Enterprise Hon. Miriam Dalli noted that 75% of the Maltese businesses are family-owned (The Malta Chamber, 2023).

Family businesses have influenced the global economy through wealth and job creation, as well as competitiveness, thereby playing a crucial part in determining the future business landscape (Astrachan, et al., 2018). Notwithstanding their importance, these firms are particularly prone to governance-related risks that jeopardise their sustainability and growth. These risks frequently stem from overlapping ownership and management responsibilities, an absence of a definitive succession plan, and limited access to external expertise. These factors may result in conflicts of interest, ineffective decision-making and difficulties in upholding responsibility (Steier & Chua, 2015).

The idea of corporate governance is changeable due to varying patterns of corporate concentration and individual interpretations of what ought to be governed. Sir Adrian Cadbury (1992, p.15) defined corporate governance as, "*the system by which companies are directed and controlled.*"

Since then, the phrase 'corporate governance' has been broadly defined throughout the years by various academics and professionals. For instance, Aguilera and Jackson (2003) defined corporate governance as *"the structure of rights and responsibilities among the parties with a stake in the firm."*

1.2 Statement of the Problem

Despite the significance of family-owned businesses, these companies are vulnerable to governance risk. Current research has primarily concentrated on governance frameworks and challenges that large and listed organisations face, leaving a substantial gap in understanding the distant dynamics of family-owned businesses (Villalonga, et al., 2015). Moreover, the interaction between family dynamics and business goals frequently introduces further complexities. Personal relationships can affect company decisions, resulting in biases and mismanagement.

The issue is intensified by the absence of specific standardised governance frameworks specifically designed for family-owned firms. In the absence of such frameworks, these enterprises may encounter difficulties in managing leadership transitions, stakeholder alignment and risk mitigation. This gap highlights the necessity for a comprehensive examination of attitudes regarding governance risk in these organisations, with the objective of identifying practical solutions to their issues.

Therefore, as Beattie (2018) has implied, small family-owned firms must strike a proper balance between the costs and benefits of adopting formal governance practices. This balance is particularly relevant when high risk levels faced by such firms are often seen to rely on entrepreneurial functions and speedy decision-making.

1.3 Aim of the study

The aim of this research is to analyse the perceptions of governance risks in Maltese family-owned businesses. This objective is two-fold:

1. The perception of the Maltese family-owned businesses which have a limited legal liability structure and are operating in the manufacturing industry.
2. The professional bodies who work closely with family businesses such as advisors, auditors, and non-government officials.

By analysing their perceptions and identifying these risks, this research aims to provide practical insights that can assist to mitigate these risks.

During the preliminary research to define the area of focus, the researcher observed that governance risk in family-owned businesses has been widely studied in various economies. However, the topic remains under-researched in Malta, particularly in the manufacturing sector. Hence, this study is designed to address the gap in the literature by analysing the factors effecting corporate governance of family-owned businesses.

1.4 Research Question and Research Objectives

This research will focus on the following research question:

1. Which are the most important risk aspects effecting the corporate governance of Maltese family-owned businesses and what possible governance-related risk mitigating measures may be taken to address such risks for family-owned limited liability businesses?

By addressing the following question, the author will show a level of comprehension about the governance risk in family-owned businesses in Malta. Furthermore, by the completion of this research, the author will be able to achieve the following research objectives:

1. To highlight the major risks and challenges of corporate governance as applied to family-owned manufacturing businesses in the Maltese islands which have a Limited (LTD) legal structure.
2. To compare and contrast the identification of such corporate governance risks based on the perception of two different stakeholder segments, namely experts and officials representing family-businesses and actual family businesses market actors in the field in Malta.
3. To determine whether or not significant discrepancies exist between the perspectives on corporate governance risks in terms of the views expressed by both stakeholder segments and the actual governance risks highlighted in the extant literature.
4. To suggest possible or potential mitigating measures that may be taken in the Maltese context with reference to the risks related to the governance of such firms, that are identified from the research findings.

1.5 Methodology

This study will be analysed by means of a mixed methodology approach.

For the quantitative approach, a questionnaire survey will be distributed to Maltese family-owned business companies through snowballing sampling. These participants will have a Limited (Ltd) legal liability structure and are operating in the manufacturing industry. The questionnaire-based survey aims to provide the author with information regarding the awareness and perception of governance in locally owned family businesses.

Additionally, a qualitative approach will be conducted by using semi-structured interviews with key representatives. These include professional bodies from the Family Business Office, the Malta Chamber of SMEs, the Malta Chamber of Commerce and the Malta Enterprise. The professional bodies are selected through purposive sampling. The purpose of these interviews is to gain useful insights on how such professional bodies see the governance risks in family-owned businesses in Malta.

1.6 Originality

For this study, the author will examine the varying perceptions on corporate governance through professional bodies and owners of manufacturing family businesses. Even though substantial literature already exists on governance challenges in family-owned businesses, the author will seek to address the research gap within the local context focusing specifically to limited liability companies who are family owned and operating in the manufacturing industry. The author will be able to discuss the primary governance risks to which these types of firms are exposed and thus, may ultimately result in a company failure. Once this study has been completed, this will be of a significant value to the following stakeholders:

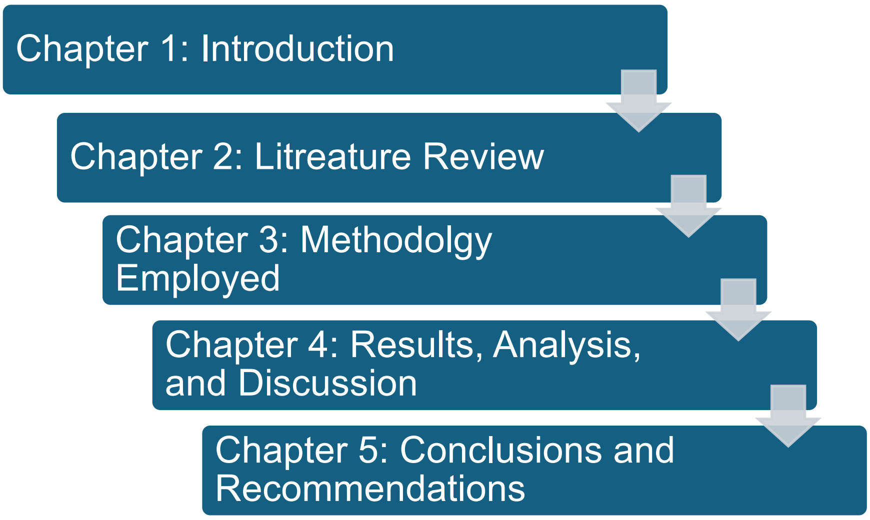
- Owners of manufacturing family-owned businesses.
- The Family Business Office/ The Malta Chamber of Commerce/The Malta Chamber of SMEs/ Malta Enterprise.
- Advisory and consulting firms working in the manufacturing sector such as accountants, lawyers and management consultants.

This study will bring to light the significant governance risks encountered by family-owned businesses in Malta. It will also be able to provide potential mitigation methods and strategies regarding their governance concerns to be implemented in these Maltese family firms.

1.7 Thesis Outline

The author will be presenting a total of 5 chapters for this study.

Figure 1: Thesis Outline



Source: Author's Compilation (2025)

Chapter 1: Introduction
This chapter provides a concise overview of the relevant information and essential definitions related to the research topic. It outlines the key rationales and sets out the research question and objectives that this study aims to achieve.

Chapter 2: Literature review
This chapter will present an in-depth analysis of the extant literature on family businesses, corporate governance in such types of firms, and governance risk-related challenges. This literature chapter will serve as the foundation for the preparation of the relevant interview and survey research documents that will be administered to the two stakeholder segments identified in the previous chapter.

Chapter 3: Methodology Employed
This chapter will outline the research methodology utilised to get the necessary data that fulfils the study's objectivities. It then discusses the research design and research methods applied. The author will note the relevant ethical research considerations and any limitations from the selected research approach.

Chapter 4: Results, Analysis and Discussion
This chapter will illustrate the results derived from the study's research methodology and the author's analysis of the data, correlating it with the literature reviewed in Chapter 2. A thorough discussion will be conducted to comprehend and interpret the data acquired by identifying any patterns, contrasts and similarities with the extant literature. This will also serve to address and fulfil the research question and objectives outlined.

Chapter 5: Conclusion
This chapter will summarise the key findings and will offer recommendations on the implementation of corporate governance in family-owned manufacturing businesses. These recommendations focus on how such practices can mitigate and/or eliminate risks that are posed by the governance structures and practices within these firms. This chapter also presents additional areas that may need further research.

1.7 Conclusion

This chapter introduced the research topic and offered a concise background on the study. In the next chapter, a review of the existing literature will be presented.

Chapter 2: Literature Review

2.1 Introduction

This chapter provides a critical review of the extant literature about risks relating to the concept of corporate governance within the family business sector. This review begins by examining the definition of family business and the different models they adopt. It then follows with an overview of the various governance structures associated with such type of businesses.

Additionally, the review is followed by an analysis of the corporate governance procedures in family firms. This serves as an introduction to the predominant challenges encountered by family firms, and their impact on corporate governance sustainability.

2.2 Definition of Family Businesses

A definition given by the Family Business Act (2017) for family businesses in Malta is one where at least two family members of the same family directly or indirectly own all company shares. One of these members must take an active role in the company's governance, administration, and management. Limited external participation is allowed, with shareholdings capped at 5% for non-family outsiders and 10% for long-serving employees. Where assets are leased, family members must be the majority of lessees (Government of Malta, 2017).

One of the primary difficulties encountered by researchers in the field of family businesses is the absence of universally accepted definition for the term 'family business' (Kraiczy, 2013). Handler (1989) highlighted that establishing a clear definition of a family business is one of the most obvious challenges in family business research. However, a prevalent viewpoint by Kraiczy (2013) suggested that a family business is usually run and owned by several family members, frequently spanning several generations. Whilst some research focus on ownership control, Donnelley (1988) defines family firms as the involvement of multiple family members and generations. Another perspective provided by Litz (1995), emphasizes on the degree of participation by family members in management.

Adrian Cadbury (2000, p.4) defines family firms as businesses that are *"owned, managed, or significantly influenced by family or families."* This applies when the family retains ultimate authority over the selection of individuals responsible for managing enterprise. However, 'The Family Entrepreneurship Working Group' under the Finnish Ministry of Trade and Industry in 2004 defined family business as one where the majority control is exercised by the founder, the acquirer of the firm, or immediate family members such as spouses, parents, children, or child's direct heirs (Family Business Conference, 2008).

2.3 Family Business Models

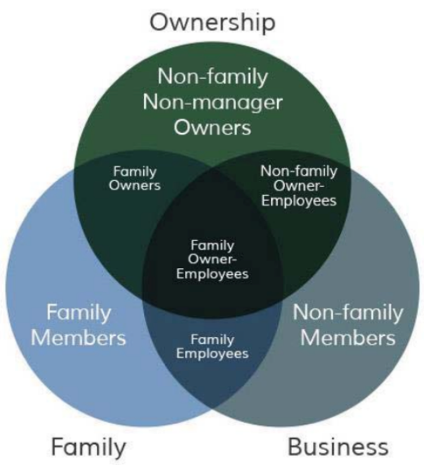
Family businesses are distinct from other types of organisations as they function at the intersection of family, ownership and management systems. This link gives rise to opportunities as well as complex challenges. To better understand these dynamics, several theoretical frameworks have been developed, focusing on how governance, performance, and succession are shaped in the family-owned businesses. The Three-Circle Model (Tagiuri & Davis, 1982) and the Three-Stage Model of Development (Gersick, et al., 1997) are two of the most influential models in the academic study of family businesses. These models offer important insights into how family companies' roles, relationships, and governance structures change over time.

2.3.1 The Three-Circle Model

The Three-Circle Model developed by Renato Tagiuri and John Davis in 1982 at Harvard Business School, is a model that illustrates the overlapping systems of family, ownership, and business that are present within family businesses. According to Tagiuri and Davis (1982), individuals have the potential to belong to one, two, or all three of these circles, depending on their responsibilities and duties. This model encourages the creation of formal governance structures such as shareholder agreement (representing the ownership circle), boards of directors (representing the business), and family councils (representing the family circle) each of which addresses the specific needs of its stakeholder group (Neubauer & Lank, 2016).

As families evolve and become more complex over time, this model supports to sustain synergy by distinguishing between emotional concerns and strategic business matters, promoting long-term business continuity and strengthening family unity (Jaffe & Lane, 2004). Family members who are engaged in the ownership but not in daily management, might have different expectations. The Three-Circle model through various governance structures helps to explain the responsibilities, promote effective communication and decision-making (Gersick, et al., 1997). Figure 2 depicts the Three-Circle Model.

Figure 2: The Three-Circle Model

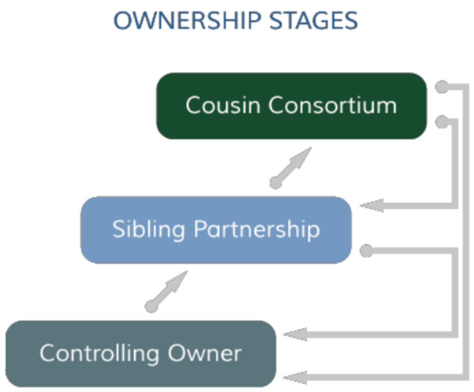


Source: (Tagiuri & Davis, 1982)

2.3.2 The Three-Stage Model

The Three-Stage Model was developed by Kelin Gersick in 1997, and it illustrates the progression of family business over time. The various stages in a family business as represented in the Three-Stage model are the ownership stage, sibling partnerships and cousin consortium. This approach emphasises that family businesses are a dynamic organisation, with difficulties such as succession, governance and conflict management evolving over time. It emphasises the necessity of adjusting governance procedures to align with the firm's development phase as they might become ineffective from one ownership to another (Gersick, et al., 1997). Figure 3 depicts the Three-Stage Model.

Figure 3: The Three-Stage Model



Source: (Gersick, et al., 1997)

2.4 Family Governance Practices

Family governance refers to the structures, processes, and the systems that control the relationships among family members and the business they own and manage (Nakpodia, 2024). The necessity for organised governance is crucial to maintain family unity and ensure business continuity, as it is specifically designed to accommodate the distinct dynamics of ownership and intergenerational transitions. Structures like family council, family assembly, and family constitution are frequently utilised to enhance communication, resolve conflicts, and synchronise the family's values with business objectives (Gersick, et al., 1997).

Family Council
The family council serves as an essential governance framework in family-owned businesses, ensuring the alignment of familiar values with the business goals (Dorsey, 2015). It serves as a bridge between the family, board of directors and the chief executive officer. The council composed of elected family members by the assembly, is responsible for organising official family meetings, developing policy, recording the family's values and vision, and selecting the member/s for the representation of the Board (Farrugia, 2010).

According to Friedman (1998), a family council that is well-designed, will assist the family in reducing the number of disputes and opposition that occur within the family by resolving issues before they get out of control. Additionally, it might be the perfect setting for educating the upcoming generation of senior managers and family directors (Baldacchino, et al., 2020).

Family Assembly
According to Neubauer and Lank (2016), a family assembly is a gathering where family members talk about issues that affect them as owners. Family assemblies address matters including endorsing the family's goals and principles, hiring and paying family members, and electing family members to serve on other governing (Carlock & Ward, 2010).

When the family business gets more complicated, a family assembly is formed and it should include both managing and non-managing family members (Farrugia, 2010). Davis and Englis (1998) characterise the family assembly as a mechanism for fostering cohesion, especially in families with a growing number of members spanning across multiple generations. It additionally serves as an education platform to prepare younger generation for the forthcoming responsibilities within the family business (Gersick, et al., 1997).

Family Constitution
The family constitution, referred to as the 'family charter', is a written agreement that sets out the collective rights and responsibilities of individuals concerned with the wealth of the family (Baldacchino, et al., 2020). The constitution encompasses the following components (International Finance Corporation (IFC), 2018):

- Mission statement, values, and vision.
- Family-constituted entities.
- Board of directors.
- Senior management.
- Interrelations among family entities, the Board, and senior management.
- Policies addressing family matters such as employment, share transfers, and succession planning.

According to Sharma and Nordqvist (2008) writing a family constitution encourages open and structured discussions about delicate subjects, ensuring clarity and agreement on expectations. However, Astrachan (2010) argues that the family constitution serves as a proactive governance instrument that minimises misunderstandings and establishes a clear process for managing conflict. Further research indicates that family businesses with a formal constitution has shown better at alignment between family goals with company strategies, thus supports greater performance and resilience (Berent-Braun & Uhlaner, 2012).

Family Office
A family office is a specialised structure that manages a family's non-operational activities, including asset management, estate planning and legal issues (International Finance Corporation (IFC), 2018). The family office, although distinct from the primary business, frequently works with the family council to ensure coherence in family governance, financial management, and succession planning. By safeguarding familiar wealth and values across various generations, the family office ensures success and long-term sustainability of both the family and the business (Baldacchino, et al., 2020).

Shareholders' Council
The Shareholders' Council is a governance entity that represents the interests of family shareholders, especially those not involved in daily business operations (Miller & Le Breton-Miller, 2006). It pertains to issues with dividends, equity ownership, liquidity, and ownership rights (Gersick et al., 1997). This council is particularly beneficial in extensive family businesses with fragmented ownership, serving as

a cohesive framework to oversee ownership changes and shareholder interactions (Chrisman, et al., 2015).

2.5 Corporate Governance and the Risks of Weak Governance

Over the years, several research have attempted to determine a single definition of corporate governance. This challenge persists to this very day (Aguilera & Jackson, 2010). As previously defined in Chapter 1, Adrian Cadbury (Cadbury, 1992, p.15) defined corporate governance as, *“the system by which companies are directed and controlled.”*

The concept of corporate governance gained significant importance during the first decade of the 21st century. Several high-profile corporate failures, including Enron, WorldCom, Parmalat, and Maxwell Communications, raised serious concerns about the weaknesses of corporate governance practices at the time (Dibra, 2016). During this period the emergence of corporate governance was seen as a critical topic, and several governments were induced to make amendments to their corporate governance legislations (Kirkpatrick, 2009). Moreover, after the 2008 financial crises, several national and international organisations, such as the Organisation for Economic Cooperation and Development (OECD), adopted and amended the governance standards and principles to improve the overall control system. According to Calder (2008) these actions were needed to resolve trust issues and restore public confidence in capital markets.

Even though the concepts of corporate governance were first centred on large, publicly listed companies, they have since grown increasingly applicable to family-owned businesses and smaller private companies. In situations like these, strong governance not only contributes to the development of compliance, but it also helps to boost succession planning, decision-making, and long-term sustainability (Mallin, 2013).

According to the Chartered Financial Analyst Institute (CFA Institute, 2013) the risks resulting from weak corporate governance are four-fold, namely:

i) Accounting Risk: The risk arising from incomplete, misleading or materially misstated financial statement recognition and the relevant reporting disclosures.
ii) Asset Risk: The risk arising when managerial employees or the firm’s directors appropriate business assets.
iii) Liability Risk: The risk of exemplifying balance sheet operation, this arises when the firm’s management enters into future obligations that may lead to a loss in value of the shareholders’ equity.
iv) Strategic Policy Risk: This risk arises when managers take decisions that serve for their own interests rather than in the best interests of the shareholders. For example, large pay-off for management or directors.

2.6 The Organisation for Economic Co-operation and Development (OECD) Governance Principles

The Organisation for Economic Co-operation and Development (OECD) Principles of corporate governance serves as a global benchmark of establishing corporate governance frameworks (OECD, 2023). The Group of Twenty (G20) represents the world’s largest economies, which collectively generate around 80% of the world’s Gross Domestic Product (GDP). By adopting and implementing OECD frameworks, the G20 grants them global importance and influence. Thus, the OECD and the G20 share a common goal for promoting sustainability, international policy coordination, market integrity and financial stability (OECD, 2023).

The OECD first established its principles of corporate governance in 1999. These were subsequently revised in 2004, 2015 and 2023 respectively. These principles provide comprehensive guidelines for policymakers, regulators, and market participants to enhance the corporate governance practices on worldwide basis (OECD, 2023). The five principles established by the OECD are discussed hereunder.

The Rights of Stakeholders

The first OECD principle emphasises the necessity of safeguarding shareholders’ rights, encompassing the right to engage in decision-making, obtain information and transfer shares (OECD, 2015). In family-owned business, shareholder rights can become more ambiguous due to the overlapping of responsibilities between owners and managers. According to Claessens and Burcin (2013), minority shareholders in family business may encounter various challenges when attempting to exert influence on the direction of the company, particularly in situations where formal governance practices are not in place. The existing literature presents that transparent process for voting, dividend policies, and information access are less commonly implement in small and medium enterprises (Mallin, 2013).

Family businesses may at times prioritise family interest over those of shareholders, which can lead to unequal treatments and weaken fairness in governance (Anderson & Reeb, 2003). Consequently, the protection of shareholder rights is essential to build investor confidence and ensuring the continuity of sound governance practices over the long-term, even in family businesses.

The Equitable Treatment of Shareholders
The second principle emphasises that all shareholders whether in minority or foreign receive equal treatment. In family businesses, dominant family members may exert influence over decisions, thereby marginalising minority resulting in preferential treatment which may result in internal conflict (Chrisman, et al., 2015). This is particularly evident in situations where informal decision-making takes over formal equity structures. The OECD (2015) suggests that all shareholders should have equal access to information and be protected from improper practices such as insider trading and conflicts of interests. This is particularly important in family-owned firms, where external regulatory oversight is often limited, making fair and transparent internal procedures even more essential.

The Role of Stakeholders in Corporate Governance
The third principle of the OECD framework highlights the significant role of stakeholders such as employees, creditors, suppliers, customers and the community at large in shaping corporate governance (Freeman, 1984). Family-owned businesses are often based on informal relationships and close personal ties, creating loyalty and trust over the long term (Miller & Le Breton-Miller, 2006). Donaldson and Preston (1995) indicate that relying too heavily on these informal connections can result in poor record-keeping, inconsistent engagement and conflict during times of stress or transition. Thus, the OECD (2015) recommends that businesses should put in place procedures that allow stakeholders to raise concerns, access information, and take part in the governance process.

Jensen and Meckling's (1976) agency theory, portrays the company as a network of contracts, where managers (agents) may prioritise their own interests rather than those of the shareholders (principals). The Agency theory focuses on reducing opportunism and self-serving behaviour through governance mechanisms. However, Chrisman et al. (2004) argue that agency theory adopts a narrow view of stakeholder engagement, which limits its applicability in family businesses where ownership and control are often intertwined.

Disclosure and Transparency
Disclosures and transparency are fundamental for building trust among shareholders, regulators and other stakeholders. The OECD (2015) stresses that companies should provide timely and accurate information on their financial position, ownership structure and governance practices. In small family-owned businesses, disclosure is often limited to legal requirements, often lacking both depth and consistency (Beattie, 2018).

According to Mallin (2013), small family-owned business that exhibit higher level of transparency are more likely to attract investment and demonstrate long-term sustainability. Encouraging the use of internal reporting systems, external audits, and stakeholder communication mechanisms, even when not legally required, can substantially strengthen governance quality.

The responsibilities of the Board
The final principle of the OECD emphasises that the Board is responsible to safeguard the interests of the business and its shareholders. Board responsibilities include overseeing strategy, evaluating management, and ensuring accuracy in reporting and internal controls (OECD, 2015). In family businesses, boards are often non-existent or made up only of family members, which can reduce independence and accountability (Gersick, et al., 1997).

Research shows that boards in family firms often act mainly as advisory bodies, with blurred lines between governance and day-to-day management (Corbetta & Salvato, 2004). However, formalising board responsibilities and involving a non-family member, even as a limited advisory role, has shown improvements in performance and objectivity (OECD, 2023). Clearly defining board responsibilities becomes especially important during succession and business development, when strategic oversight is needed.

2.7 Corporate Governance and Entrepreneurial Risks

In family-owned businesses, entrepreneurial risks indicate the exposure to risks that may influence strategic decisions, and long-term business stability (Chrisman, et al., 2015). Effective corporate governance serves as a vital framework for risk mitigation, nonetheless governance processes in family enterprises are often informal, underdeveloped or non-existent (Beattie, 2018). Corporate governance and management might view differently in such businesses. Tricker (2015) distinguishes management as the activities of the executive management, including the daily operations of the businesses, whilst governance involves the responsibilities of the board of directors, ensuring the organisation is effectively managed and aligned with the business strategic objectives.

Beattie (2018) argued that fourteen out of the twenty entrepreneurial pitfalls established by Holloran (1991) could have been easily avoided through sound and effective governance mechanisms. Beattie (2018) identified several governance pitfalls typically found in small family-owned businesses, particularly in relation to ownership concentration, lack of formalised structures and inadequate succession planning. In the absence of a formal board or advisory structure, decision-making frequently becomes concentrated around one or two family members, thereby hindering innovation or delaying responses to market fluctuations.

A significant entrepreneurial risk arises from inadequate succession planning. Studies show that succession represents not only a governance difficulty but a critical risk for business continuity (Le Breton-Miller, et al., 2004). Improperly managed transitions in family enterprises result in leadership failure, diminished stakeholder trust, and business failure. Beattie (2018) has additionally noted that emotional resistance and reluctance to share authority frequently hinder family founders from formulating effective succession planning, rendering the business to instability and conflict.

Another governance-related entrepreneurial risk is the lack of professionalism. Number of small family business are reluctant to engage external professionals, whether in management or governance (Tricker, 2015). This reluctance may restrict access to essential expertise, hinder the implementation of best practices and reduce objectivity in strategy planning (Corbetta & Salvato, 2004).

Moreover, family businesses often face problems due to lack of transparency and internal controls. The close-knit traits of these firms often result in informal financial oversight or reporting methods (OECD, 2015). Beattie (2018) observed that although some family enterprises adhere to basic reporting mandates, few exceed the legal requirements to implement enhanced transparency measures.

Despite potentially costly implementation, effective corporate governance, when appropriately designed and implemented, tends to reduce entrepreneurial risk. Miller and Le Breton-Miller (2006) perceived that well-governed family businesses improve strategic oversight, formalise decision-making and are able to show resilience when confronted with risk.

2.8 Corporate Governance Challenges in Family-Owned Businesses

Family businesses are a distinctive organisational structure in which the interests of the business and the family are intertwined. Although the close-knit structure can be advantageous, these firms pose unique governance challenges such as informality in decision-making, generational dynamics and the absence of formal accountability mechanisms (Miller & Le Breton-Miller, 2006). These governance concerns are important to be understood, particularly in the light of the substantial influence that family business have on national economies (International Finance Corporation (IFC), 2018).

Informality and Undocumented Decision-making
A common governance challenge in family-owned businesses is the informality of management and decision-making (Songini, et al., 2013). In the absence of formal reporting systems and performance assessments, decisions are often influenced by emotion factor rather than objective (Miller & Le Breton-Miller, 2006).

Lack of Formal Governance
Family businesses frequently depend on the authority of the founder instead of formal governance structures (Gedajlovic, et al., 2004). The lack of formal governance structures such as board of directors or defined policies, frequently results in unclear responsibilities, poor accountability, and ineffective strategic management (Miller & Le Breton-Miller, 2006). Astrachan and Shanker (2003) argue that the absence of professionalisation in family companies frequently arises from the reluctance to hand over power to non-family individuals to implement corporate governance structures.

Conflicts of Interest and Family Dynamics
Family relations often influence business process, leading to conflicts of interests that hinder governance (Dyer Jr, 2006). The emotional complexity associated with familiar relationships such as sibling rivalries and generational disparities can result in power conflicts and inconsistent decision-making (Tagiuri & Davis, 1982).

Furthermore, governance challenges escalate in the absence of distinct boundaries between ownership, management, and familiar duties (Gersick, et al., 1997). As discussed in Section 2.3.1 this phenomenon is referred to the Three-Circle Model. The consequent lack of clarity of responsibilities may create disagreements regarding control, resources distribution and strategic direction especially during periods of crises transition (Tagiuri & Davis, 1982).

Gender and Generational Bias
Curimbaba (2004) argue that family businesses may exhibit gendered patterns in leadership succession, frequently privileging male heirs despite the qualifications of female family members. In addition, older generations may resist innovative technological or strategic methods suggested by younger successors, resulting in generational conflict that jeopardises long-term sustainability (Cabrera-Suárez, et al., 2001).

Zahra and Sharma (2004) state that aligning governance with current ideas of innovation can be achieved through the establishment of advisory board and encouraging discussions regarding merit-based succession.

Succession Planning Issues
According to Handler (1994), succession planning is commonly considered to be one of the most significant challenges encountered by family firms. According to Ip and Jacobs (2006), the lack of clear succession plans contributes to uncertainty, internal conflict and the potential loss of confidence among stakeholders respectively.

Sharma et al. (2003), asserts that succession issues are further complicated by emotional relationships, the expectations of family members, and questions regarding the competency and legitimacy of any potential successors. Lansberg (1999) emphasises that succession is not simply an economic process but also a deeply personal one. Furthermore, conflicts often arise, when founders are resistant to stand aside or when the next generation feels pressed to take over roles who may be unprepared or uninterested.

Nepotism and Resistance to External Treatment
Nepotism is another governance challenge commonly observed in family businesses. It refers to the tendency to prioritise family loyalty over merit-based recruitment and promotion (Jaskiewicz, et al., 2013). While employing family members can strengthen trust and reinforce shared value, it may also hinder the development of professional competencies and limit company's attractiveness to talented external personnel (Cruz, et al., 2012). Gersick et al. (1997) further highlight that an over-reliance on family members in leadership jobs can create a talent bottleneck, limiting innovation and competitiveness.

Corbetta and Salvato (2004) note that a recurring challenge in family businesses is resistance to external influence. This issue can be addressed by involving independent board members, external managers, or trust advisors. Family-owned businesses may perceive outsiders as a threat to the control of their families or to the integrity of the cultures (Dyer, 1989). On the other hand, research conducted by Mazzola et al. (2008) has demonstrated that incorporating external knowledge into governance processes, financial oversight, and strategic planning can lead to significant improvements in both performance and long-term competitiveness.

Transparency and accountability
Transparency is essential for effective corporate governance. However, many family-owned businesses do not publish financial reports or do external audits unless legally required (Klein, et al., 2005). This limits their ability to secure financing, attract investors, and earn the trust with stakeholders. Without external accountability systems, there will be less pressure to follow good governance practices, especially in environments where regulatory enforcements are weak (International Finance Corporation (IFC), 2018).

According to Anderson and Reeb (2003), family businesses which implement basic governance measures, such as routine financial reporting, external auditing and formalised polices, tend to achieve stronger performance outcomes when compared to companies who do not follow these practice.

Reputational Risk
Reputational risk is a critical concern for family-owned businesses, as weak governance structures can reduce stakeholder confidence and threaten long-term credibility. According to Zellweger et al. (2012) reputation is a key non-financial asset for family firms, closely tied to socio-emotional wealth and family's identity within the business. However, inadequate governance mechanisms can erode this asset, limiting access to external finance and reducing competitiveness (Anderson & Reeb, 2003).

2.9 Governance Sustainability and the Risk Register

Governance sustainability can be defined as the ability of a business to develop and maintain governance structures, processes, and practices that ensure long-term continuity, accountability and resilience (Berrone, et al., 2010). The concept of governance sustainability comprises more than just legal and compliance. This concept consists of adaptability, value-based leadership, and strategic integration of both family and company interests (Neubauer & Lank, 2016).

When it comes to family firms, governance sustainability is particularly important, as these are frequently facing number of challenges on weak governance due to complex family relationships. Weak governance mechanisms may expose them to risks such as succession disputes, decision-making processes, and conflicts of interest, all of which threaten survival across generations (Zahra & Sharma, 2004).

Furthermore, governance sustainability should take a proactive approach. Embedding structured governance practice such as family councils and advisory boards, formulating succession plans and transparent reporting helps to reduce these vulnerabilities in family firms (Le Breton-Miller, et al., 2004).

Moreover, there is a growing connection between sustainable governance and the principles of Environment, Social and Governance (ESG). In fact, governance sustainability is often aligned with the *"G"* pillar of the ESG framework, where effective governance practices support transparency, fairness and long-term success of organisations. Although the incorporation of ESG principles is associated with large companies, it is now regarded as helpful and important for micro, small and medium sized enterprises (Marquès Gou, et al., 2014).

However, small and family-owned firms are currently not obliged to report on governance sustainability. O'Reilly et al. (2025) observe that although such firms are outside the legal requirement, reporting on governance sustainability might be costly and complex with low immediate return.

In addition, the role of education and the preparedness of successive generations is revealed to be an essential component of the sustainability of governance. First generation management of family business must have the ability to communicate effectively and cultivate a culture of governance literacy among younger members of the family (Sharma & Nordqvist, 2008).

The foregoing has served to illustrate the various responsibilities that a firm's Board of Directors must address within the context of good governance. One important responsibility that does not exclude the direction of family-owned firms relates to the development of a basic risk register. This is especially the case as the Board is responsible for risk oversight as well as the maintenance of a proper system of internal controls to the shareholders investment and the firm's assets.

The risk register has been proposed for small and medium enterprises by the UK's Institute of Directors (Institute of Directors (IOD), 2024) which has recommended that the register is reviewed by the board on a regular basis. The register should contain the following information:

- A description of the salient risks facing the business.
- An estimation of the financial and material impact on the firm should the risk event(s) take place.
- An estimation of the probability of the occurrence of risk-related events recorded in the register.
- A summary of the pre-planned response(s) by the business in the event such occurrences happen.
- A summary of the actions that the firm may need to take in proactively to minimise the probability and/or impact of the event.

2.10 Conclusion

This chapter reviewed the existing literature with particular focus on family businesses and their corporate governance in such types of firms. This chapter highlighted the distinctive governance challenges faced by family-owned businesses and underlined the importance of governance sustainability. The following chapter will set out the research methodology employed for this study.

Chapter 3: Methodology Employed

3.1 Introduction

Chapter 3 sets out the research methodology adopted for this study. Firstly, the author introduces the overall research design, highlighting the rationale for adopting a mixed-method approach. Subsequently, the procedures taken for collecting primary and secondary data are outlined. Section 3.7 presents an overview of the data analysis and concludes with the relevant ethical research considerations and the methodological limitations encountered from the selected research approach.

3.2 Research Approach

When conducting research, a researcher may adopt either a deductive or an inductive approach. A deductive approach begins with existing theories or hypothesis and are tested through structured data collection (Bryman, 2016). This approach moves from the general to the specific and is most associated to quantitative research.

In contrast, an inductive approach starts with the data itself. It allows the researcher to identify patterns, develop themes and build theories based on the insights that emerge from the data (Saunders, et al., 2023).This research approach is normally used in qualitative data, particularly when the research topic is widely under-studied.

For the purpose of this study, an inductive approach was deemed to be the most suitable. This allowed the researcher to gather in-depth insights directly from the participants and to identify themes based on the responses gathered.

3.3 Research Design

Creswell (2018) defines research design as the overall framework that links the research questions to the methods of data collection, analysis and interpretation, thereby ensuring validity and reliability. Bell et al. (2022) explain that a structured research design is essential for producing reliable results and ensuring that the findings are valid within the context of the study.

Creswell (2018), classified research designs into three primary types: (1) qualitative, (2) quantitative, and (3) mixed-method approaches.

The qualitative approach seeks to achieve a deeper understanding of a complex phenomenon by examining non-numerical data through open-ended tools such as interviews (Saunders, et al., 2023). Denzin and Lincoln (2018) noted that the qualitative research helps researchers to understand individuals' experiences and the contexts in which they occur.

By contrast, the quantitative approach seeks to quantify the data using numerical data, often aiming to analyse correlations between variables in a systematic way (Saunders, et al., 2023). This type of approach typically uses closed-ended questions with pre-determined response options, making it suitable for statistical analysis.

The mixed-method approach, as defined by Creswell (2018), combines both the qualitative and quantitative data into a single study. It allows the researcher the benefit of leveraging the strengths of each method, while counterbalancing for their respective limitations (Cresswell & Plano Clark, 2017). Nonetheless the mixed-method approach requires skill, time and resources to put all results together (Sami, 2016).

Therefore, the mixed-method approach was deemed to be the most appropriate for this study. The qualitative method was used to gather data from professional bodies, whilst quantitative method was used to gather data from directors or senior managers of family-owned business operating in the manufacturing sector under a limited liability structure.

3.4 Research Instrument Design

3.4.1 Semi-structured interviews

An interview is a qualitative data collection method in which the researcher engages directly with the participants to obtain a full understanding on a specific topic (Gill, et al., 2008). Interviews can vary in their format ranging from formal and structured discussions to informal and unstructured conversations (Longhurst, 2003).

Structured interviews consist of a set of standardised questions asked in a predetermined order. The researcher follows a rigid script, asking the same questions in the same sequence to all participants (Bryman, 2016). This approach enhances consistency and comparability but restricts the capacity to examine any unforeseen results. On the other hand, unstructured interviews, are informal and conversational, allowing a free-flowing discussion with minimal guidance from the researcher. Thus, these types of interviews do not include any standardised questions from the interviewer (Mason, 2017).

Semi-structured interviews represent a balanced approach of both types usually including a guided interview schedule, where the researcher can cover key themes while giving space for the conversation to flow naturally according to the participants' responses (Kallio, et al., 2016). According, to Mason (2017), such type of interviews offer a flexible and interactive approach, enabling the researcher to probe further based on the interviewees' responses.

The researcher deemed that the semi-structured interviews were to be the most appropriate method to gather the data required from professional bodies who work closely with Maltese family-owned manufacturing businesses.

The secondary literature research discussed in Chapter 2, was the basis to formulate the interview questions that the author utilised (found in Appendix 1). Table 1 depicts the 5 sections of the interview schedule and their corresponding question numbers in the interview document.

Table 1: Interview Schedule Structure

Section Heading	**Question Number**
Section 1: Background	1 - 2
Section 2: Corporate Governance Practices	3 - 4
Section 3: Perceptions of Governance Risk	5 - 11
Section 4: Governance Sustainability	12 - 14
Section 5: Mitigating Measures	15 - 17

Source: Author's Compilation (2025)

Due to the nature of the topic under review, the interview questions consisted of both open-ended and close-ended questions. Close-ended questions provide respondents with predetermined response options including the Likert scale, and binary answers (Oppenheim, 2000). In contrast, open ended questions give participants the freedom to express their thoughts, enabling the researcher to explore their individual experiences, and interpretations (Patton, 2015). The use of both question types in the semi-structure interviews allowed the researcher to maintain consistency in core topics while still providing the flexibility to adapt to the participants' unique perspectives. Table 2 depicts the distinction between open-ended and closed-ended questions in the interview schedule.

Table 2: Distinction between open-ended and close-ended questions.

Question Type	Question Number
Open – Ended	1 – 2
	5.1, 8, 10 -11
	12 – 14
	15 - 17
Close-Ended	3 - 4
	5 – 7, 9

Source: Author's Compilation (2025)

3.4.2 Questionnaire-based Survey

A questionnaire-based survey is a commonly used research tool designed to systematically gather data from large respondent groups in a structured and efficient way. According to De Vaus (2014), questionnaires are particularly effective for research studies aimed at assessing attitudes, perceptions or practices across a target population. The use of a questionnaire-based survey is especially valuable when the researcher seeks to identify patterns, draw conclusions and generalise the findings from the statistically analysed collected data (Bryman, 2016).

The questionnaire-based survey was distributed to Maltese family-owned businesses who have a limited legal structure and are operating in the manufacturing industry (found in Appendix 2). Table 3 depicts the questionnaire-based survey schedule which was utilised for this study.

Table 3: Questionnaire-based survey schedule

Section Heading	Question Number
Section 1: Company Profile	1 - 6
Section 2: Corporate Governance Practices	7 - 11
Section 3: Perceptions of Governance Risk	12 - 15
Section 4: Governance Sustainability	16 - 18
Section 5: Mitigating Measures	19 - 21

Source: Author's Compilation (2025)

3.5 Research Participants and Sampling Techniques

For the qualitative data, interview participants were selected using purposive sampling, which is a non-probability sampling method employed in qualitative research (Patton, 2015). This technique allows the researcher to purposefully select individuals with relevant expertise or experience, enhancing the collection of rich and meaningful data (Palinkas, et al., 2015).

This study conducted semi-structured interviews with six participants selected for their direct experience and professional engagement with family business in Malta. The participants included representatives from the family-owned business and manufacturing councils/committees of the Malta Chamber of Commerce, the Malta Chamber of SMEs, and the Family Business Office.

For the quantitative data, survey participants were selected using snowballing sampling. This is a non-probability sampling technique, which involves identifying initial respondents who then refer the survey to other potential participants within their network (Bryman, 2016).

The questionnaire survey was specifically addressed to the directors and senior managers of manufacturing family businesses in Malta under a limited liability structure. To determine the appropriate sample size, the researcher referred to the official list of registered family businesses provided by the Family Business office. The reported population size was deemed to be 45 manufacturing family-owned businesses.

The sample size was established through an online sample size calculator (Calculator.net, 2025). Assuming 95% confidence level and 5% margin of error, the minimum sample size required to achieve statistically reliably results was calculated to be 41 respondents. This figure was issued as a benchmark to assess if the collected data would be considered as a representative sample for the whole sector.

3.6 Data Collection Techniques

3.6.1 Collection of Primary Data

3.6.1.1 Qualitative Data

For the purpose of this study, primary data through qualitative methods was collected via semi-structured interviews. The interview process was carefully planned to ensure ethical compliance, respondent clarity, and data reliability.

Initially, potential participants were contacted via email and provided with a brief overview of the research study. The message invited participants to recommend a suitable date, time, and location for the interview to take place. This communication also assured participants of full confidentiality and anonymity, explaining that all data would be used exclusively for academic purposes and would not contain any identifying information (Saunders, et al., 2023).

Interviews were conducted during a four-week period and took place at the interviewees' offices. Each session lasted between 45-60 minutes. At the beginning of each interview, participants were briefed about the purpose of the recording and asked to sign a consent form. Audio recordings were used to ensure accuracy and completeness during transcription and later analysis.

In qualitative research, there comes a point where further interviews no longer contribute new data, this is referred to as saturation. Saturation is reached when additional interviews no longer contribute new themes or insights (Guest, et al., 2006).

3.6.1.2 Quantitative Data

The primary data of the quantitative method of this study was collected through an online questionnaire survey. This questionnaire survey was designed and distributed using Google Forms. This tool was selected due to its ease of use, compatibility with various devices and efficient for data analysis.

To ensure that the target population was reached, the questionnaire survey was distributed to two key businesses networks in Malta: the Malta Chamber of Commerce and the Malta Chamber of SMEs. Both entities were formally contacted and provided them with a digital link to the questionnaire. This link was subsequently circulated through their internal communication systems to members within the manufacturing sector. As an example of this circulation, the Malta Chamber of SMEs published this survey link in their official newsletter, which is distributed electronically to their member base which can be read in Appendix 3.

In addition, the Family Business Office was also contacted to support the distribution process. The Family Business Office provided the author with a complete list of businesses formally registered as family-owned businesses. To ensure the relevance of the sample, a rigorous manual screening process was undertaken to identify those which have a limited liability structure and are operating within the manufacturing sector. Each company on the list was individually reviewed using publicly available sources such as company websites. Once this filtering process was completed, the relevant companies were contacted directly via email and provided with the official link to the questionnaire survey.

At the beginning of the survey, a brief introductory section was included to provide transparency and ensure compliance with ethical standards. This section outlined the identity of the researcher, the purpose and objectives of the research. Participants were informed that their responses would be anonymous, that participation was voluntary, and that the data would be used strictly for academic purposes in accordance with university ethical guidelines (Bryman, 2016). Consent was implied through the completion and submission of the survey. The questionnaire was accessible for a pre-determined period, during which periodic reminders first by email and then via telephone call were issued by the author. The anonymity of the online format also helped minimise social desirability bias, as respondents were more likely to answer freely without fear of judgment or identification (Saunders, et al., 2023).

3.6.2 Collection of Secondary Data and Sources of Literature Consulted

In addition to primary data gathered through interviews and surveys, as mentioned in section 3.6.1, this study utilised secondary data sources to ground the theoretical base for the research. Secondary data refers to information previously gathered, analysed, and published by other academics or researchers, and which is valuable to support the research study (Sharp, et al., 2017).

The author reviewed several academic sources of literature, which are depicted in Table 4. These sources were accessed through HyDi, a library platform by the University of Malta other sources were gathered through Google Scholar, Emerald Insight and ProQuest. Some of the keywords used during the search process were 'Corporate governance risk,' 'Family-owned businesses,' 'Challenges of corporate governance in family-owned businesses,' and 'Corporate governance risk and entrepreneurship.'

Table 4: Type of Literature Sources Consulted

Primary Sources	Secondary Sources	Tertiary Sources
Academic Journal Articles	Journals covering a specific literature	Handbooks
Thesis and Dissertations	Online Journals	
Books		
Reports		

Source: Author's Compilation (2025)

3.7 Data Analysis

3.7.1 Qualitative Data Analysis

The audio recordings of the interviews were transcribed shortly after each session to ensure the accuracy of participant responses and to retain the contextual meaning. Transcription was conducted manually, allowing the author to immerse the data and gain familiarity with the content before initiating the coding process.

The qualitative data obtained from the semi-structured interviews were analysed using thematic analysis, based on the approach of Braun and Clarke (2006). This approach allows the researcher to systematically identify, evaluate and assess any patterns. This approach involves coding segments of the interview transcripts and categorising them into themes, ensuring that the analysis remains aligned with the research question and objectives (Braun & Clarke, 2006).

The thematic analysis as outlined by Braun and Clarke (2006) follow a structured six-step approach:

1. Becoming familiar with the data.
2. Generating initial codes.
3. Identifying potential themes.
4. Reviewing themes.
5. Defining and naming themes.
6. Producing the final report.

In addition to open-ended questions, the interview schedule included a small number of close-ended questions designed to collect specific responses relating to governance practices and challenges. The responses to these questions were extracted from the interview transcripts. This allowed the data to be tabulated and analysed, such as identifying response frequencies and summarising categorical data. Question 6 which addresses the concern of governance risks were analysed using descriptive statistics techniques via IBM SPSS. This enabled the author to compute key summary statistics including the mean and standard deviation. The integration of basic quantitative insights alongside thematic analysis helped enrich the overall data gathered.

Following the analysis of the interview transcriptions, the author generated the key themes which were based on recurring patterns and insights across participants' responses.

3.7.2 Data analysis for quantitative data

The quantitative data collected through the structured questionnaire-based survey was analysed using Microsoft Excel and IBM SPSS. In Microsoft excel, individual respondents were entered as rows, while survey questions were organised in columns. IBM SPSS was then used to perform descriptive statistical analysis, as well as non-parametric tests for independent samples.

Non-parametric tests are statistical methods used when data does not meet the assumptions of normal distribution (Field, 2013). In this study, two such tests were employed: the Chi-Square test and the Kruskal-Wallis H-test. The Chi-Square is used to assess relationships between categorical variables, whereas the Kruskal-Wallis H-test is applied to identify the differences between two or more independent groups (Palliant, 2020).

To facilitate interpretation and enhance the presentation of findings, the analysed data was visualised using a series of charts. These visualisations highlighted the main trends and patterns clearer and more accessible. This process aided in highlighting areas of consistency or differences among the surveyed businesses.

3.8 Ethical Research Considerations

In accordance with the University of Malta's ethical procedures, the questionnaire and interview schedules, together with the Data Management Plan (DMP) were submitted for review and approval through the University Research Ethics Committee (UREC) and referenced as FEMA-2025-00159.

Upon receiving ethical approval, emails were sent to the manufacturing companies registered with the Family Business Office, Malta Chamber of Commerce and Malta Chamber of SMEs, providing the link to the questionnaire survey. Additional emails were sent to the professional bodies who work closely with family businesses. These emails outlined the objectives of the study, highlighted the voluntary nature of participation and extended an invitation to participate.

Participants were assured that the data gathered would be solely used for the purposes of this research, and that anonymity and confidentiality would be strictly maintained. For interview participants specifically, pseudonyms were assigned to protect their identities. In addition, all collected data would be securely stored and retained for a period of five years, after which time, this data would be permanently deleted.

Prior to the commencement of each interview, participants were asked to complete and sign an interview participation consent form (See Appendix 4). This form served both as evidence of informed consent and as a formal confirmation that the interview had taken place. Additionally, before each interview began, participants were asked to confirm whether they consented to the recording of the session for transcription purposes.

3.9 Limitations of the Methodology

The first limitation relating to this research is the potential of response bias, as participants might have presented governance practices in a more favourable light to protect the reputation of their organisation (Cresswell, 2018).

Additionally, there is a limitation of non-response bias where participants might have experienced weaker governance structures and may have opted not to participate in this study. Consequently, the findings may disproportionately reflect organisations with stronger or more formalised governance practices, thus limiting the representativeness of the results.

Another constraint was the sectoral scope, as this study focuses solely on the Maltese manufacturing industry. Hence, results may not be fully applicable to other sectors like financials services or retail.

Lastly, time constraints limited the extent of data collection, restricting the opportunity for wider participation in terms of the scope and size of the primary data generation gained by this study.

3.10 Conclusion

This chapter has outlined the research design, the data collection methods, the data analysis and the research ethical considerations and limitations. The next chapter presents the findings of this research study obtained by adopting the discussed research methodology, as well as an analysis of the research results considering the extant literature concerning the governance-related risks affecting family-owned and controlled firms.

Chapter 4
Results, Analysis, and Discussion

4.1 Introduction

This chapter outlines the key findings derived from the study's primary data, following the methodological approach discussed in Chapter 3. The analysis includes both the quantitative approach and qualitative approach.

The quantitative data represents the views of corporate governance risks and practices as perceived by owners or leadership teams in the Maltese family-owned businesses, specifically to those operating in the manufacturing sector. This analysis of the collected data is presented in section 4.2. The qualitative data analysis presented in section 4.3 derives the perception of corporate governance risk as seen by professional bodies who work closely with family businesses such as advisors, auditors, and non-government officials.

At the end of Chapter 4, a clear and detailed overview of the corporate governance risks faced by family-owned businesses is provided, along with the mitigating measures taken to reduce these risks. This has been done while ensuring that the findings are in line with the broader extant academic literature discussed in Chapter 2 on challenges of corporate governance risks.

4.2 Quantitative Approach – Survey-Questionnaire Analysis

In this section, the quantitative data collected through the questionaire based survey is presented and analysed. Within the limited timeframe, the researcher obtained 21 responses. Notwithstanding that this amount is lower than the intial proposed sample size as discussed in Chapter 3, this number of responses represent nearly half of the whole sector population of 45 registered manufactuing family-owned businesses.

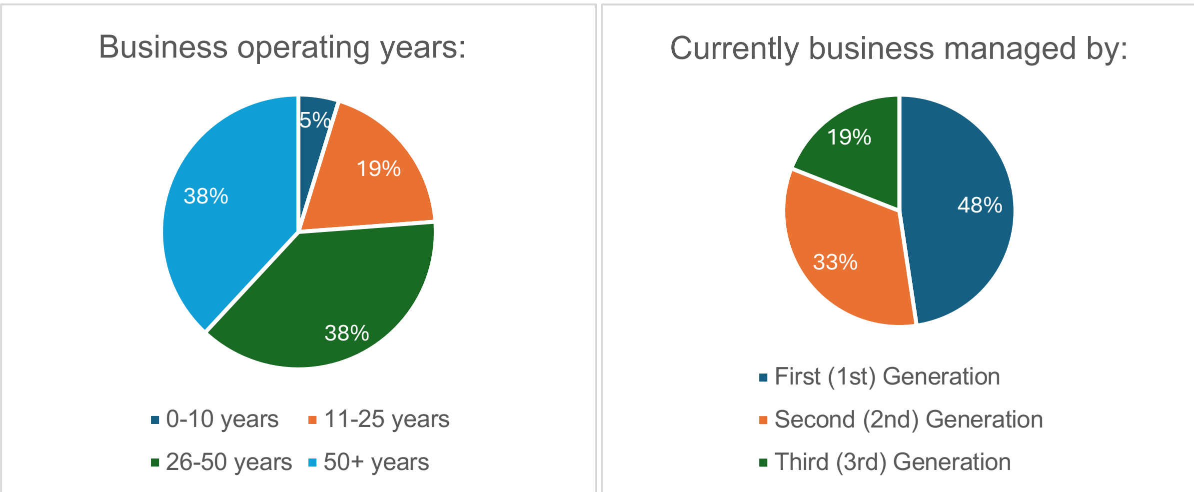
4.2.1 Demographics

Figure 4 indicates the distribution of the family business operating years and by which family generation is currently managed. This analysis is further broken down in Figure 5, where it illustrates the distribution of operating business years per family generation.

The data collected shows that ten businesses are currently led by first-generation management. Of these, one business has been operating for 0-10 years, four businesses have been operating for 11-25 years and the remaining five have been operating for 25-50 years. This suggests that the founders of businesses older than ten years have remained actively involved in the management of the business.

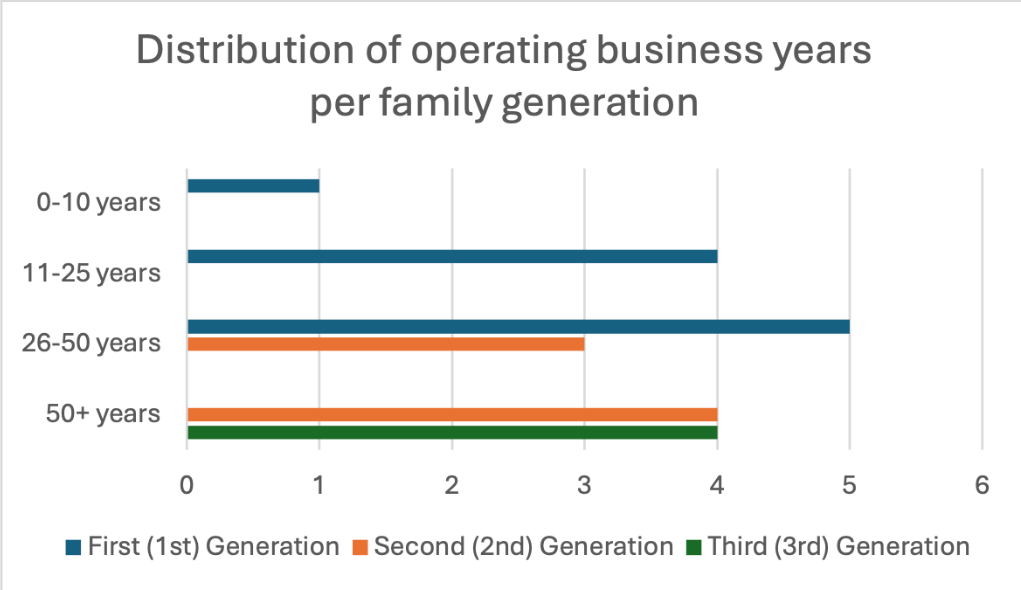
As also depicted by Figure 5, there are three and four businesses which have been operating between 26-50 years and 50+ years, respectively. The remaining four businesses from the sample population are currently operating in the third generation.

Figure 4: Distribution of business operating years and family generation.



Source: Author's compilation (2025)

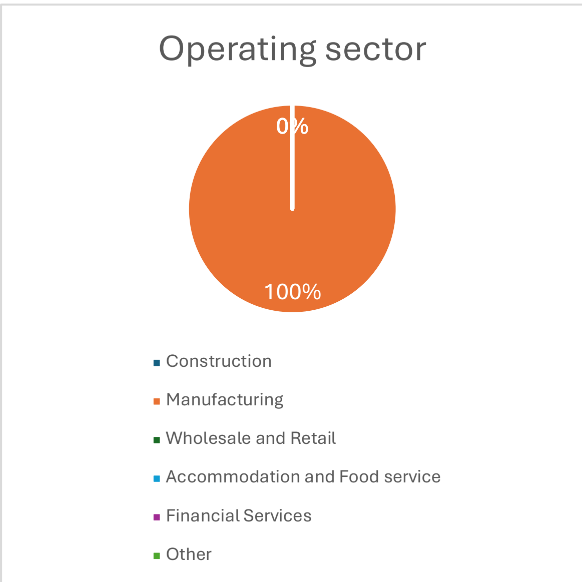
Figure 5: Distribution of operating business years per family generation.



Source: Author's compilation (2025)

Figure 6 shows the business scope of the operating sector and legal form of the companies. Given the nature of the study, all respondents had to be operating within the manufacturing sector with a private legal limited liability (Ltd) structure. The data therefore confirms that all respondents met the eligibility requirement regarding both sector and legal status.

Figure 6: Operating sector and legal form of the company distribution.

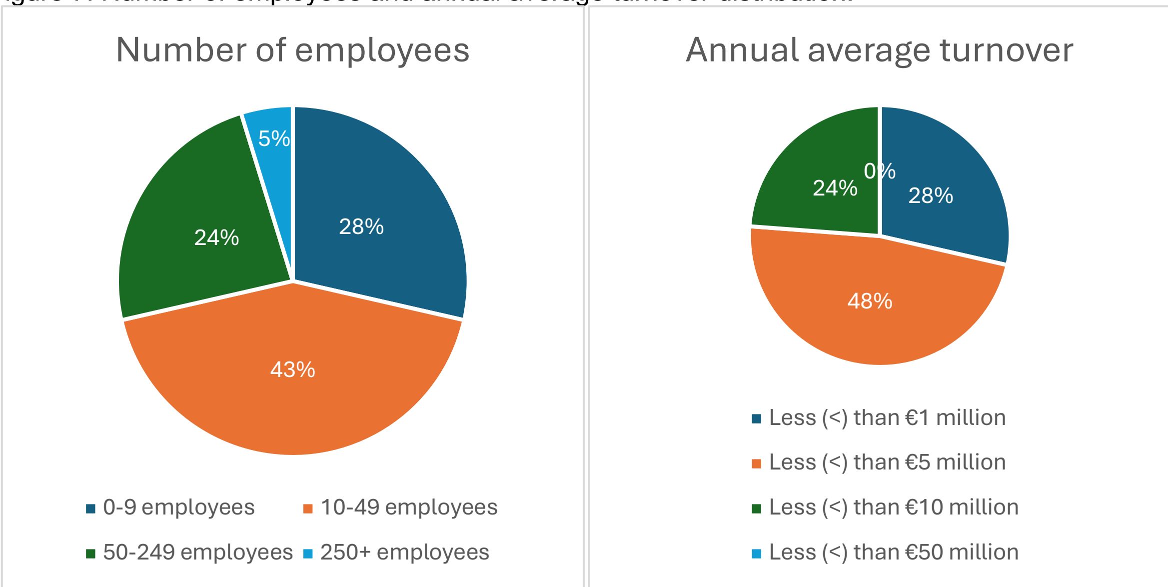


Source: Author's Compilation (2025)

Figure 7 represents the number of employees and the annual turnover of the sampled family firms. Most of the respondents employ between 10-49 people. This was followed by six firms employing 0-9 employees. Whilst five firms reported that they employ between 50-249 employees. Only one family-owned business has 250 or more employees.

In terms of turnover for the latest financial year, ten respondents indicated an annual turnover of not more than €5 million, whilst six registered a figure of not more that €1 million followed closely by five respondents who have an average annual turnover of not more than €10 million.

Figure 7: Number of employees and annual average turnover distribution.



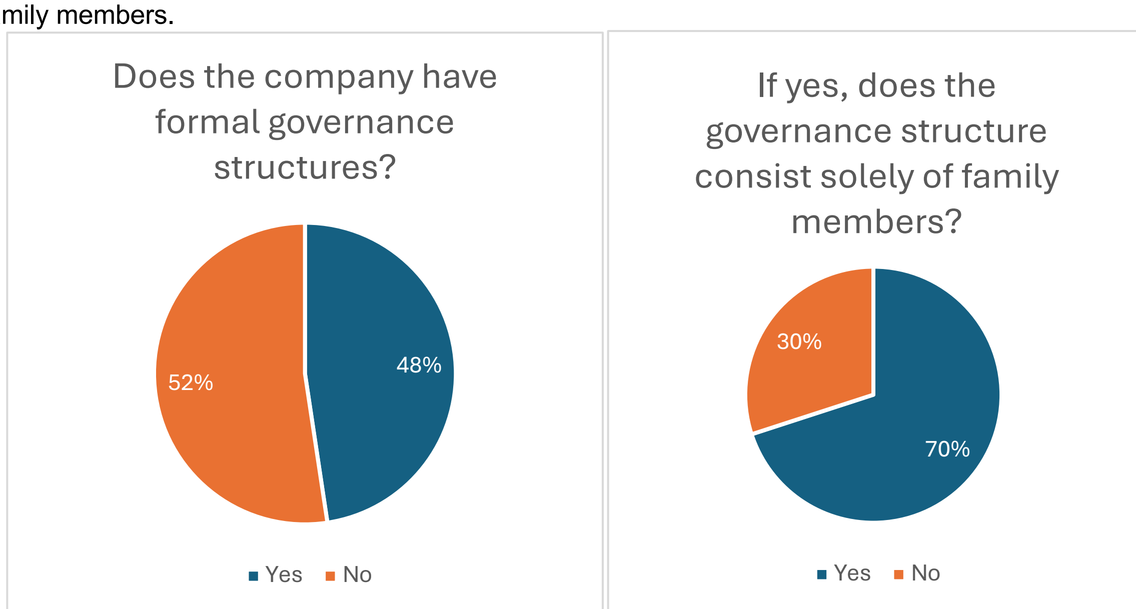
Source: Author's Complication (2025)

4.2.2 Corporate Governance Practices

Figure 8 depicts the number of family business that have formal governance structures such as board of directors, an advisory board or any sub-committees. If in the affirmative, the respondents were further asked if these solely consist of family members.

As shown from Figure 8, 52% of the respondent firms replied in the affirmative, however, only 30% of these include third-party members within the board. This suggests that while over half of the businesses recognise the importance of formal governance structures, fewer involve independent members. As previously discussed in Chapter 2 Section 2.8, involving external individuals in the governance can bring significant improvement for the business (Miller & Le Breton-Miller, 2006).

Figure 8: Number of companies who have formal governance structures, and if so, solely consisting of family members.

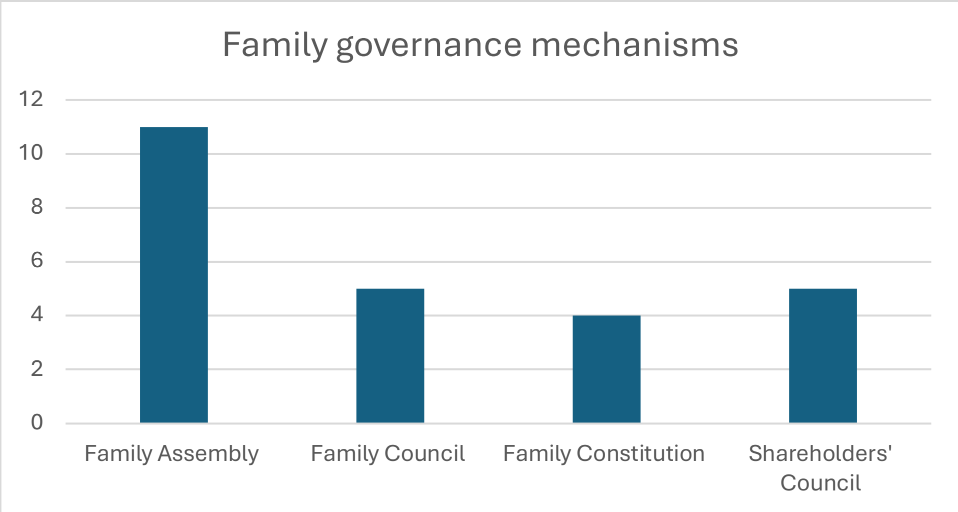


Source: Author's Compilation (2025)

Participants were asked if their businesses have any type of family governance mechanisms currently in place. As per Figure 9 the majority responded that they have a family assembly in place. As discussed in Chapter 2, it is important for family businesses to have a family assembly in place as this mechanism will address all type of family-related issues in the business. These include family goals, principles, hiring and paying employees, electing members to the family council, and mostly importantly serves as an educational platform for younger generation (Carlock & Ward, 2010).

This was then followed by the shareholders' and family council each with 24% respectively and lastly the existence of a family constitution was 19%.

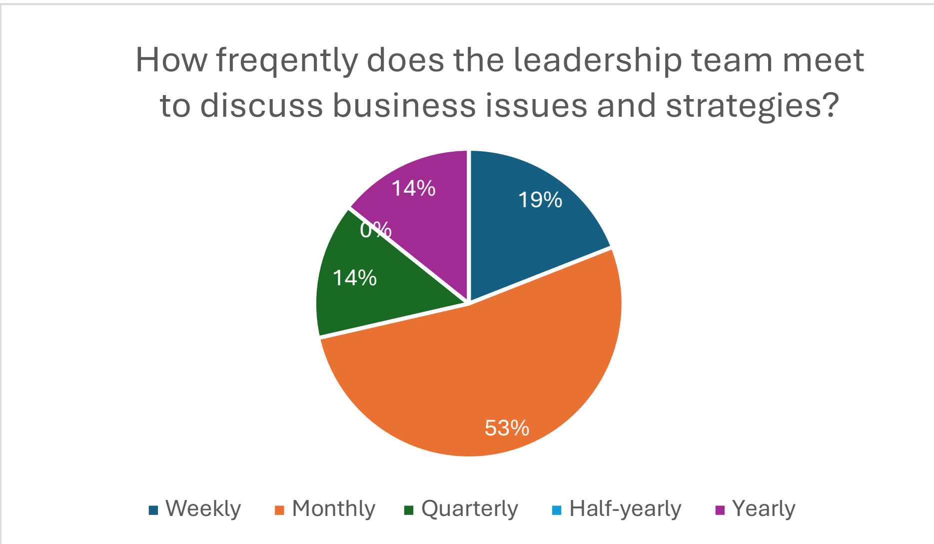
Figure 9: Number of companies who have family governance mechanisms in force.



Source: Author's Compilation (2025)

Figure 10 illustrates the frequency of the leadership team meetings to discuss business issues and strategies. The majority responded that they meet at least once a month. This was followed by 19% who stated that they meet weekly, while quarterly and yearly meetings shared the same response rate of 14%. It may be noted that, no business respondents reported meeting on a half-yearly basis.

Figure 10: Number of times the leadership team meet to discuss issues and strategies.

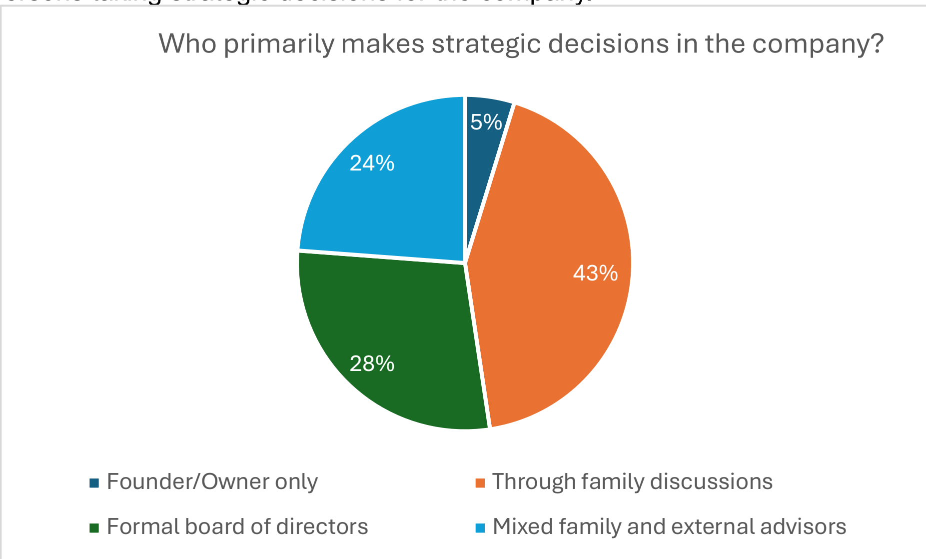


Source: Author's Compilation (2025)

Figure 11 depicts that strategic decisions within family-owned businesses are most commonly made through family discussions, with 43% of respondents asserting that informality characterises such processes. This shows a strong reliance on internal family agreement rather than structured governance mechanisms.

Following this, 28% of the family businesses indicated that strategic decisions are handled by a formal board of directors. Interestingly, 24% reported using a mixed approach involving family members and an external advisor, reflecting a shift to blend internal experience with external expertise. One sampled participant responded that strategic decisions are taken by the founder/owner only.

Figure 11: Persons taking strategic decisions for the company.



Source: Author’s Compilation (2025)

4.2.2.1 Non-Parametric tests for independent samples

The Chi-Square test of independence was used to assess the relationship between the generation stage of family business and the presence of formal governance structures. A *p* value below 0.05 is typically considered statistically significant, indicating that the result is unlikely to be due to random variation (Field, 2013). In this case, the test produced a *p* value of 0.021, showing a significant relevance between family generation and governance structure. This implies that the family stage generational involvement influences whether a family business establishes formal governance structures. Table 5 illustrates the results of one such test.

Table 5: Computation of Chi-Square test for the relationship between generation stage of family business and the presence of formal governance structures

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	7.713[a]	2	.021
Likelihood Ratio	9.496	2	.009
Linear-by-Linear Association	7.332	1	.007
N of Valid Cases	21		

a. 5 cells (83.3%) have expected count less than 5. The minimum expected count is 1.90.

Source: Author’s Compilation (2025)

Furthermore, as the cross-tabulation shown in Table 6, only 20% of first-generation business respondents reported having a formal governance structure, compared to 57.1% of second-generation business and 100% of third generation family firms.

These findings suggest that family-controlled manufacturing firms in later generation stages are significantly more likely to implement formal governance practices. This reflects structural maturing and the acquisition of greater level of business education and experience over time.

Table 6: Computation of the Cross-tabulation between family generation and formal governance structures.

Generation * Formal Governance Structure Crosstabulation

			Formal Governance Structure No	Yes	Total
Generation	First Generation	Count	8	2	10
		Expected Count	5.2	4.8	10.0
		% within Generation	80.0%	20.0%	100.0%
	Second Generation	Count	3	4	7
		Expected Count	3.7	3.3	7.0
		% within Generation	42.9%	57.1%	100.0%
	Third Generation	Count	0	4	4
		Expected Count	2.1	1.9	4.0
		% within Generation	0.0%	100.0%	100.0%
Total		Count	11	10	21
		Expected Count	11.0	10.0	21.0
		% within Generation	52.4%	47.6%	100.0%

Source: Author's Compilation (2025)

The Chi-Squared test was additionally used to further analyse if the generational stage of the family business affects whether formal governance structures are composed solely of family members. As shown in Table 7, the *p* value of 0.335 indicates no statistically significant relationship between generational stage of the family business and governance structures composed exclusively of family members.

Table 7: Computation of Chi-Square test for the relationship between generation stage of family business and the presence of formal governance structures if composed solely of family members

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	2.187[a]	2	.335
Likelihood Ratio	2.737	2	.255
Linear-by-Linear Association	1.969	1	.161
N of Valid Cases	10		

a. 6 cells (100.0%) have expected count less than 5. The minimum expected count is .40.

Source: Author's Compilation (2025)

4.2.3 Perception of Governance Risk

4.2.3.1 Descriptive Analysis

A key objective of this study was to identify the major risks and challenges of corporate governance in family-owned manufacturing businesses in Malta operating under a limited liability legal structure. The survey instrument addressed a range of governance-related risks, and respondents were asked to indicate their level of concern for each risk. This was done by using a Likert scale ranging from 1 (indicating a low level of concern) to 5 (indicating a high level of concern). All these risks mentioned were firstly discussed in Chapter 2 Section 2.8.

Based on the responses collected, the results showed a mixed level of concern among family-owned businesses. However, most respondents selected a neutral rating, with 3 being the most common score across all listed risks.

The results from the descriptive statistics as shown in Table 8 indicates that among governance-related risks, succession issues were perceived as the most concerning. This risk with a mean score of 3.24 and a standard deviation of 1.30, is suggesting a moderate to high level of concern but also a wide variation in responses, indicating some disagreement between respondents.

This was followed by resistance to change, and informal or undocumented decision-making, with the mean scores of 3.19 and 3.10 respectively, showing that both issues reflecting a moderate level of concern. Conversely, financial compliance or reporting issues, and lack of accountability and transparency were rated lowest, with the main scores of 2.48 and 2.57 respectively, indicating a lower perceived concern.

Notably, the risk of accountability and transparency had the lowest standard deviation being 0.87, suggesting an agreement of low concern among respondents.

Table 8: Computation of Descriptive Statistics for the concern of corporate governance risks

Descriptive Statistics

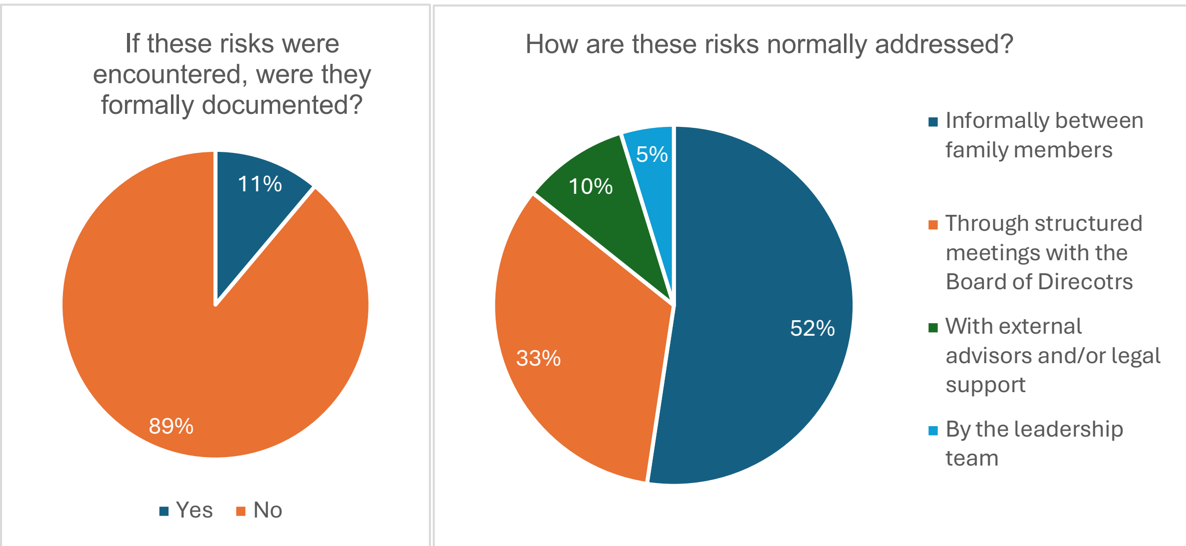
	N	Range	Minimum	Maximum	Mean	Std. Deviation
Succession Issues	21	4	1	5	3.24	1.300
Lack of Formal Governance	21	4	1	5	2.90	.995
Informal or undocumentated decision-making	21	4	1	5	3.10	1.044
Lack of accountability and transparency	21	3	1	4	2.57	.870
Conflict between family and business roles	21	4	1	5	2.76	1.136
Resistance to change (generation bias)	21	4	1	5	3.19	1.123
Reputational risk due to weak governance	21	4	1	5	2.86	1.195
Financial Compliance or reporting issues	21	4	1	5	2.48	1.078
Valid N (listwise)	21					

Source: Author's Compilation (2025)

Respondents were further asked whether these risks had ever been encountered and if so, formally documented for future reference. It was reported that 88% had not done so, while only 12% confirmed that such documentation had taken place.

Furthermore, as indicated in Figure 12, 52% of the respondents normally address these risks informally through communication between family members, whilst 33.3% discuss these through structured meetings with the Board of Directors. Only 9.5% of the family-owned businesses surveyed discuss governance related risks with external advisors and/or legal support. One participant noted that the leadership team addresses these risks.

Figure 12: Distribution of responses regarding whether governance-related risks were formally documented and how are such risks typically addressed



Source: Author's Compilation (2025)

Additionally, the family businesses surveyed were asked to rate their level of awareness for accounting, asset, liability and strategic policy risk. Table 9 presents the relevant descriptive statistics.

The respondents reported the highest average awareness for both accounting and liability risks respectively, each with a mean score of 3.33. This suggests that participants are moderate to highly aware of these risks. This was followed by strategic policy risk awareness with a mean score of 3.05.

Asset risk received the lowest awareness rating with a mean of 2.95, indicating low familiarity for this particular risk category when compared to other categories.

Asset risk had the highest standard deviation, that of 1.596, indicating a high level of dispersion among respondents in terms of their understanding of this category's importance. In contrast, accounting risk had the lowest standard deviation of 1.39, implying greater uniformity of awareness among respondents.

Table 9: Computation of Descriptive Statistics for the awareness of corporate governance risks

Descriptive Statistics

	N	Range	Minimum	Maximum	Mean	Std. Deviation
Accounting Risk	21	4	1	5	3.33	1.390
Asset Risk	21	4	1	5	2.95	1.596
Liability Risk	21	4	1	5	3.33	1.461
Strategic Policy Risk	21	4	1	5	3.05	1.431
Valid N (listwise)	21					

Source: Author's Compilation (2025)

4.2.3.2 Non-Parametric tests for independent samples

The Kruskal-Wallis H-test was used to compare the level of concern of governance-related risks varied by business generation stage. This test was applied across all eight governance risk variables that were highlighted in the survey instrument. The test assessed whether statistically significant differences existed in risk perception between family-owned businesses managed by the first, second, and third generation.

Table 10 indicates that no statistically significant differences were found across generational groups perceive governance-related risks. For all eight risk types measured, the *p* values (Asymp. Sig.) exceeded the 0.05 threshold. The term *Asymp. Sig* refers to the asymptotic significance, which is the estimated *p* value calculated based on a large sample approximation (Field, 2013).

In this context, it indicates that the probability that any observed differences between the two groups occurred by chance. Since all values were above the 0.05 threshold, the differences in concern levels between first, second, and third generation family businesses are not strong enough to be considered statistically impactful.

Table 10: Computation of Kruskal-Wallis H-Test for the relationship between generation stage of family business and the risk perception faced

Test Statistics[a,b]

	Lack of accountability and transparency	Succession Issues	Lack of Formal Governance	Financial Compliance or reporting issues	Informal or undocumentated decision-making	Reputational risk due to weak governance	Resistance to change (generation bias)	Conflict between family and business roles
Kruskal-Wallis H	.929	1.229	.450	.317	.632	.361	.331	1.614
df	2	2	2	2	2	2	2	2
Asymp. Sig.	.629	.541	.799	.853	.729	.835	.848	.446

a. Kruskal Wallis Test

b. Grouping Variable: Generation

Source: Author's Compilation (2025)

Furthermore, the Kruskal-Wallis H-Test provided a ranks table. This table shows the mean rank for each generation across all eight governance risks.

Table 11 indicates that the highest-ranking risk was related to succession issues, with a mean of 14.00. This mean score suggest that third-generational businesses showed more concern about succession when compared to first and second generation, having a corresponding mean of 10.25 and 10.30 respectively.

When analysing the conflict between family and business roles, the second generation showed more concern when compared to the third generation. Thus, this could reflect that in the second generation, family-controlled manufacturing firms may have experienced more tension between family members.

The lack of formal governance structures tends to concern more the first generation rather than the third generation having a mean of 11.85.

Across several governance related risks, it could be noted that the second-generation family businesses respondents consistently reported higher levels of concern. This reflects the transitional pressures of assuming leadership, while targeting legacy structures. By contrast, the first-generation firms sampled showed moderate concern across most risks, which may reflect the dominant role of the founder of the business. Furthermore, the third-generation firms surveyed, consistently reported the lowest mean rank scores, indicating lower perceived concern. This could be attributed to existence of established governance structures, clearer succession processes and accumulated experience.

Although these differences were not statistically substantial, they offered valuable insight into how governance risk perceptions may shift as manufacturing family businesses mature through generational stages.

Table 11: Computation of Kruskal-Wallis H-Test ranks table

Kruskal-Wallis Test

Ranks

	Generation	N	Mean Rank
Lack of accountability and transparency	First Generation	10	11.40
	Second Generation	7	11.86
	Third Generation	4	8.50
	Total	21	
Succession Issues	First Generation	10	10.25
	Second Generation	7	10.36
	Third Generation	4	14.00
	Total	21	
Lack of Formal Governance	First Generation	10	11.85
	Second Generation	7	10.50
	Third Generation	4	9.75
	Total	21	
Financial Compliance or reporting issues	First Generation	10	11.75
	Second Generation	7	10.36
	Third Generation	4	10.25
	Total	21	
Informal or undocumentated decision-making	First Generation	10	11.55
	Second Generation	7	11.43
	Third Generation	4	8.88
	Total	21	
Reputational risk due to weak governance	First Generation	10	11.35
	Second Generation	7	11.43
	Third Generation	4	9.38
	Total	21	
Resistance to change (generation bias)	First Generation	10	10.70
	Second Generation	7	12.00
	Third Generation	4	10.00
	Total	21	
Conflict between family and business roles	First Generation	10	10.95
	Second Generation	7	12.79
	Third Generation	4	8.00
	Total	21	

Source: Author’s Compilation (2025)

4.2.4 Governance Sustainability

This sub-section will discuss the governance sustainability currently in place in the manufacturing family-businesses surveyed.

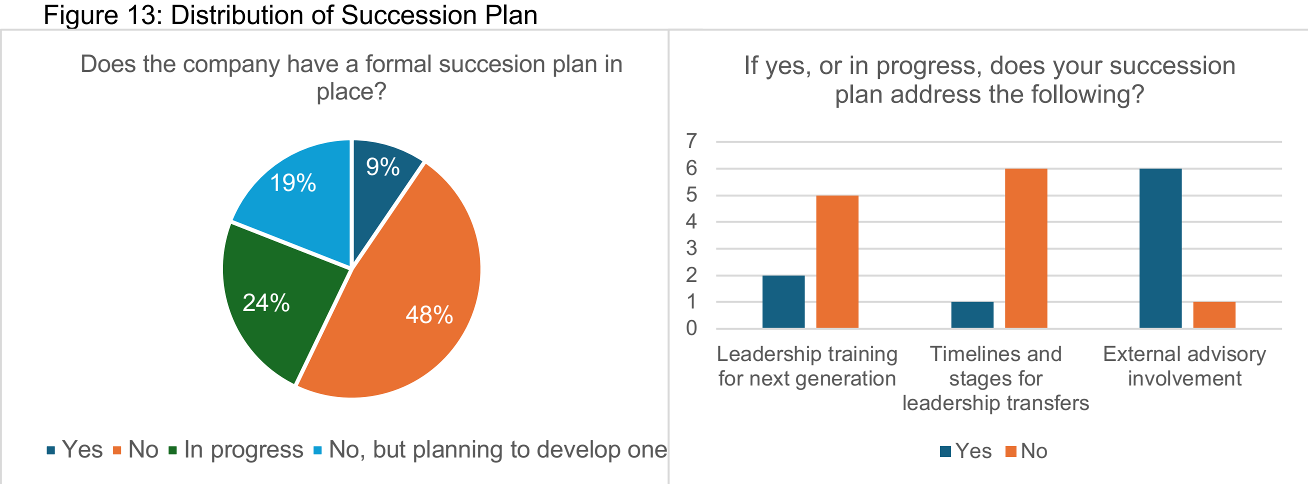
The majority of the respondents, 48%, do not have a succession plan in place. This highlights a significant lack of preparation for leadership transitions within the family business’ respondents. Meanwhile, 24% of the businesses reported that a succession plan is currently being developed, and 19% indicated that they are planning to develop one. Only two survey participants confirmed that they already have a succession plan in place.

A subsequent question was asked to those participants who stated that they have a succession plan or are currently developing one. Among these respondents, the most common feature included in their plans is the involvement of external advisors, with six out of seven family businesses reporting this.

However, other essential elements such as leadership training and clear timelines for leadership handover were less common with only two participants and one respectively reported to have address these in their succession plan.

These findings raise concerns about the readiness of this sector's sample of family businesses to manage leadership succession effectively. The respondents also suggest potential risks to long-term sustainability as firms move from one generation to the next. Figure 13 illustrates these results.

Figure 13: Distribution of Succession Plan



Source: Author's Compilation (2025)

4.2.4.2 Non-Parametric tests for independent samples

A Chi-Square test of independence was carried out to determine the relationship between the generation stage of the manufacturing family business and the existance or development of a succession plan. As shown in Table 12, the distribution showed some variation, with second and third-generation businesses appearing more likely to have, or be in the process of developing, a succession plan.

However, the results are not statistically significant, as the *p* value was 0.154. This indicates that no strong association was found between generation stage and succession planning status within the current sample.

Table 12: Computation of Chi-Square test for the relationship between generation stage of family business and the presence or in development of a succession plan

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	9.368[a]	6	.154
Likelihood Ratio	12.204	6	.058
Linear-by-Linear Association	.002	1	.965
N of Valid Cases	21		

a. 12 cells (100.0%) have expected count less than 5. The minimum expected count is .38.

Source: Author's Compilation (2025)

The crosstab analysis as shown in Table 13 suggests that later generations tend to be more proactive or rather more structured in succession planning efforts, whilst first generation businesses are often still informal or reactive.

Table 13: Computation of the crosstabulation between generational stage of the family business and the presence or in development of a succession plan

Generation * SuccessionPlan Crosstabulation

			SuccessionPlan				
			Yes	No	In progress	No, but planning to develop one	Total
Generation	First Generation	Count	0	6	4	0	10
		Expected Count	1.0	4.8	2.4	1.9	10.0
		% within Generation	0.0%	60.0%	40.0%	0.0%	100.0%
	Second Generation	Count	1	2	1	3	7
		Expected Count	.7	3.3	1.7	1.3	7.0
		% within Generation	14.3%	28.6%	14.3%	42.9%	100.0%
	Third Generation	Count	1	2	0	1	4
		Expected Count	.4	1.9	1.0	.8	4.0
		% within Generation	25.0%	50.0%	0.0%	25.0%	100.0%
Total		Count	2	10	5	4	21
		Expected Count	2.0	10.0	5.0	4.0	21.0
		% within Generation	9.5%	47.6%	23.8%	19.0%	100.0%

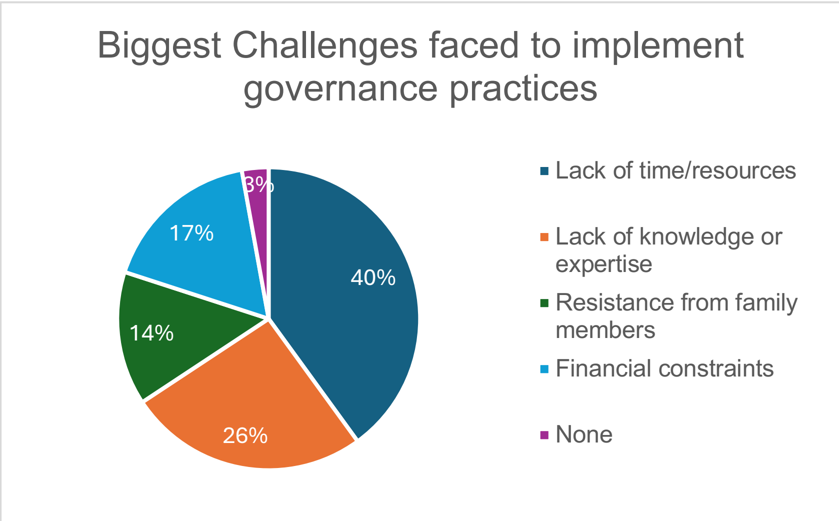
Source: Author's Compilation (2025)

The last question covered in this section required participants to identify the biggest challenges in implementing governance practices that support long-term sustainability.

Figure 14 shows that the most cited challenge was lack of time and resources with 67%. This highlights the operational pressures that limit the sector's sample of family-owned businesses from focusing on structured governance. Closely followed by lack of knowledge or expertise with 42.9%, indicating a need for greater awareness and training on governance practices.

Financial constraints were also mentioned by 29% of respondents, suggesting that cost remains a barrier even when awareness is present. Additionally, resistance from family members with 24% reflects the influence of family dynamics, where generational differences to change may hinder progress. On the contrary, one participant reported that no challenges were presented. Moreover, another participant commented that in the business things are kept simple but always works with a focus on sustainability.

Figure 14: Distribution of challenges faced to implement governance practices



Source: Author's Compilation (2025)

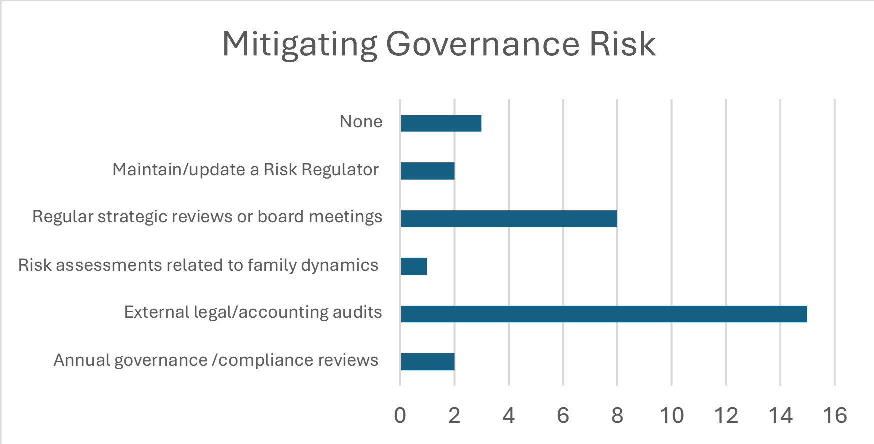
4.2.5 Mitigating Measures

The last section in the survey-questionnaire related to the mitigating measures currently being taken by the family businesses surveyed, which goes hand in hand with the fourth research objective.

Figure 15 shows that 71% of respondents reported conducting external legal or accounting audits, which is however a standard requirement for limited liability companies registered with the Malta Business Registry. However, only 38% reported holding regular strategic reviews or board meetings.

Conducting annual governance or compliance reviews, maintaining and updating a formal business Risk Register was both cited by 10% of the participants respectively. Only one respondent reported carrying out risk assessments related to family dynamics. 14% of the family businesses indicated that they do not take any formal actions to address governance risks.

Figure 15: Governance risk mitigation practices among family businesses



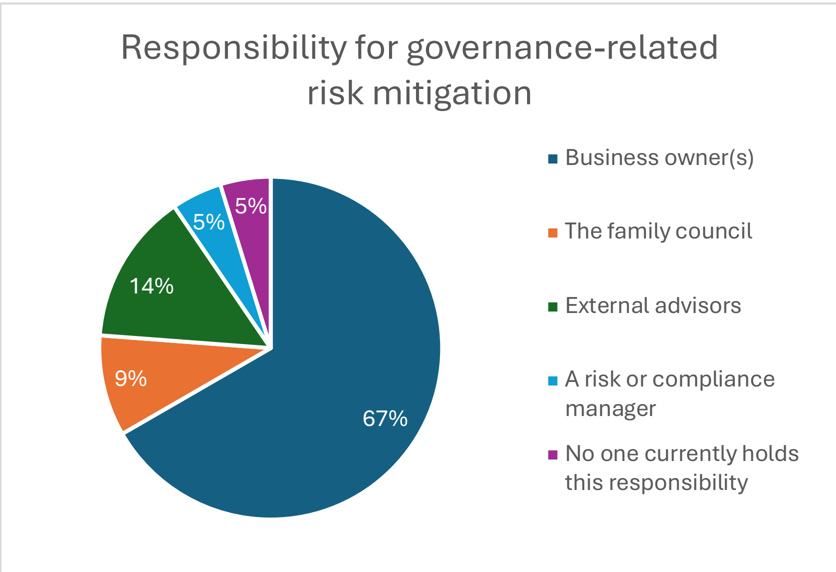
Source: Author’s Compilation (2025)

In terms of responsibility for risk mitigation, Figure 16 indicates that 67% of the surveyed participants placed governance-related risk mitigation in the hands of the business owner(s). This reinforces the centralised nature of decision-making in the sector’s sample of firms.

Meanwhile, only a small respondent segment involved external advisors, a family council or risk compliance manager. These results suggest that risk mitigation practices are often informal and owner-driven with limited delegation to governance structures or external experts.

Alternatively, the financial and human resource constraints relating to governance-related risk mitigation may hinder more structured approaches in this area.

Figure 16: Governance-related risk mitigation responsibility



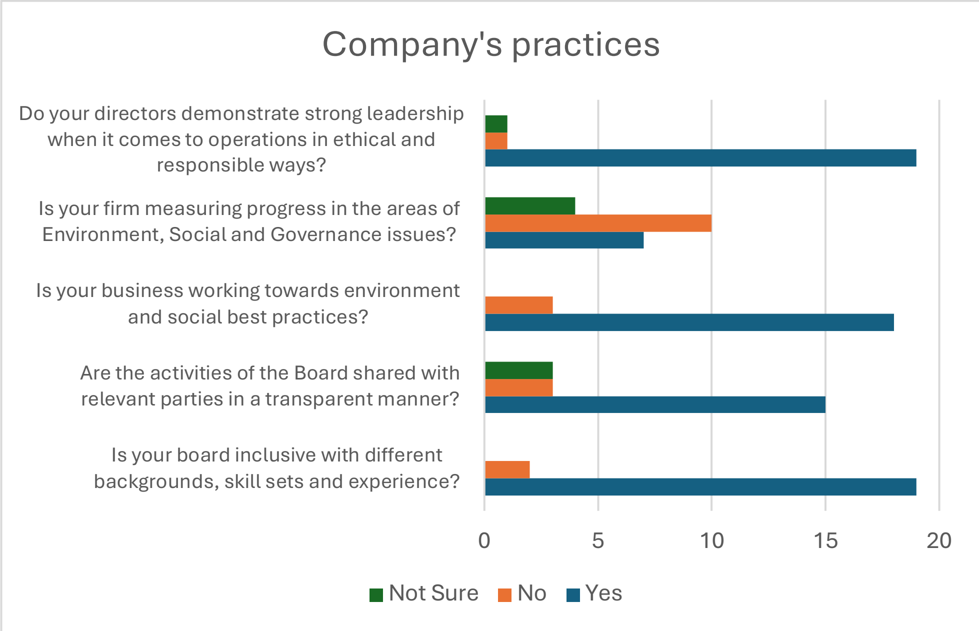
Source: Author’s compilation (2025)

The last question required family business to note the most applicable according to their company’s practices. Figure 17 illustrates that most of the family businesses surveyed demonstrate strong ethical leadership and board inclusivity, with 90% of the family businesses agreeing that these are their current practices.

A high number of 86% respondents reported working towards environment and social best practices. However, only 33% of the respondents measure progress in Environment, Social and Governance practices (ESG). Board transparency related to information sharing across the business showed mixed results, with only 33% sharing information from board activities, while 48% did not, 19% of the respondents were unsure.

These results suggest that while the businesses surveyed show strong values and awareness, there are gaps in formal ESG measurement and board communication. Addressing these areas could strengthen long-term governance and sustainability within family-owned firms.

Figure 17: Current family businesses practices



Source: Author's Compilation (2025)

4.3 Qualitative Approach – Interview Analysis

The author carried out six interviews with various experienced professional bodies in the respective field. As discussed in Chapter three, the interviews were analysed using thematic analysis and were divided into four themes as follows.

Theme 1: Formalising Governance to mitigate company structural risk
Theme 2: Corporate Governance related risk
Theme 3: Governance Sustainability, Succession Issues and Family Dynamics
Theme 4: Mitigating tools and awareness

4.3.1 Demographics

Table 14 portrays the six participants interviewed which hold a senior role. These interviews were held with representatives from the Family Business Office, the Malta Chamber of Commerce, the Malta Chamber of SMEs, and Malta Enterprise. They have a wide range of professional experience, spanning from 10 to 36 years, providing a well-rounded perspective on corporate governance practices and risks within the Maltese family business sector. This diversity in roles and experience helped ensure a broad and informed understanding of the challenges discussed in the interviews.

In this study, saturation was reached by the fourth interview, as the responses began to reflect consistent pattern and themes observed from previous interview. At this stage, the researcher was confident that further interviews would yield repetitive information without significantly enhancing the findings.

Table 14: Interview Participants demographics

Participant Coding	Job Position	Years of experience
A	Director	15
B	Regulator	10
C	Operations manager	36
D	CEO	18
E	Chairman	35
F	Manager	32

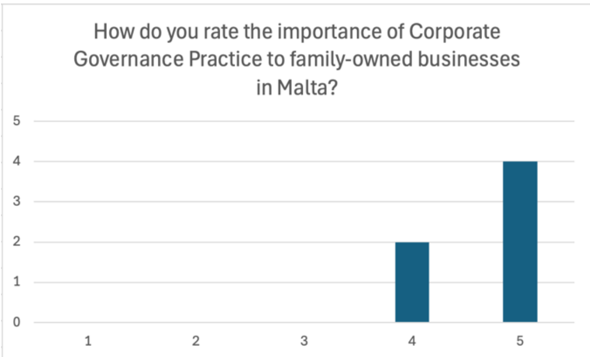
Source: Author's Compilation (2025)

4.3.2 Theme 1: Formalising Governance to mitigate company structural risk

Most participants as shown in Figure 18 shared a strong view that formalising corporate governance structures is essential to reduce structural risks in family-owned businesses. However, most participants emphasised that governance systems must be adapted to the size and maturity of the company.

In this regard, participant D ranked the importance of corporate governance as 4 in the Likert scale and stated that although it is important, *"there has to be a balance between the importance of corporate governance, but then the practicality of certain structures."* Moreover, as observed by participant B *"not having these structures or policies in place, they end up deciding based on the situation they are facing at that point in time."* As discussed in Chapter 2 Section 2.8, the lack of even basic governance structures can expose businesses to significant risks, such as poor decision-making, lack of transparency, and succession instability as stated by Songini et al. (2013).

Figure 18: Interview participants rating the importance of corporate governance practices.



Source: Author's compilation (2025)

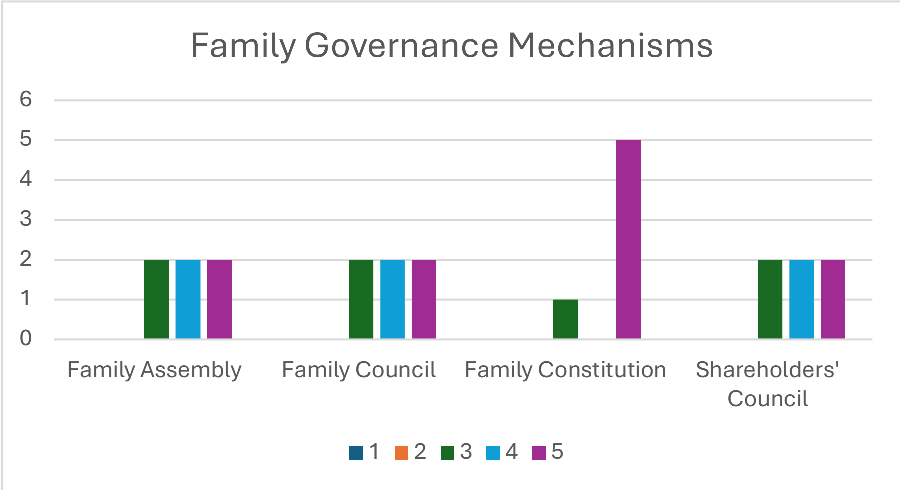
Figure 19 depicts that among all governance mechanisms. The Family Constitution emerged as the most valued family governance mechanism. It was described by participant A:

"As the basis on which family businesses try to reach, the values of the business and where the business it at nowadays, however the most important thing is what is going to happen with the business in the future."

It was further emphasised that although it is a non-legally binding document, it is a morally binding document. Participant D and E identified it is the most important form of the family governance mechanisms available, particularly for businesses who are of a certain size, where informal rules no longer suffice.

While participant B, addressed that some successful businesses manage without one, it was stressed that having a documented framework enhances clarity and reduces internal disputes, however it should reflect the realities of that business's structure.

Figure 19: Interview participants opinion on which type of family governance mechanisms to have in place

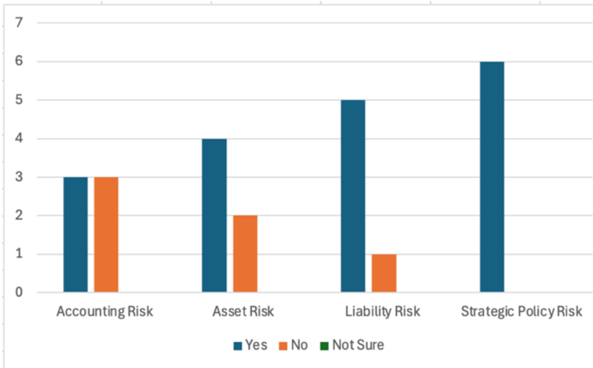


Source: Author's compilation (2025)

4.3.3 Theme 2: Corporate governance-related risk

Theme 2 focuses on the discussions made towards the perceptions of corporate governance-related risks as highlighted by the professional bodies interviewed. Narrowing down on key areas of risks and challenges faced, with the aim of understanding their collective perception.

Figure 20: Participants' views on the governance-related risks that family businesses commonly face.



Source: Author's Compilation (2025)

The author's aim of the question was to gather the perspectives of professional bodies on the governance-related risks faced by family business. These perspectives were then compared with the survey responses from the family business sample in order to assess whether any disparities could be identified.

Figure 20 shows that accounting risk was not seen as a major concern by half of the survey participants. Since these businesses are registered as limited liability companies, they are legally required to submit audited financial statements to the Malta Business Registry (MBR). Failure to comply can result in fines, thus encouraging compliance.

Participant D added that this risk is further reduced through the involvement of professionals, such as accountants and auditors. However, several participants pointed out that financial information is rarely used to guide governance decisions. Subsequently participant A criticised that most family businesses treat accounting as a year-end task, stating that companies *"just review them at the end of the year with their auditors and that's it."* Participant C supported this view, describing this process as a, *"ticking the box exercise,"* which may prevent businesses from detecting early warning signs.

Asset risk was also identified as a concern, particularly for businesses in the manufacturing sector. Participant B stated that some business owners are hesitant to reinvest in their assets, often delaying necessary upgrades or maintenance. This reluctance can result in operational inefficiencies, equipment downtime, or potential safety risks.

Liability risk was also seen as a major risk, with most of the participants asserting that liability issues often arise when owners or managers take on obligations beyond the firm's strategic or financial capacity. Furthermore, participant A expressed concerns about traditional thinking, where older generations rely on past success to justify financial decisions, despite the continuously changing market conditions.

Strategic policy risk was the most highlighted risk between all interview participants, as they all believed that it is the most common risk that Maltese family-owned businesses face. As participant C affirmed, *"if you do not have a strategy, all the others will fail."* This comment shows how strategic planning supports other key areas of governance, including financial oversight, succession, and risk management. In other words, a weak strategy leaves the business exposed on multiple fronts.

The interview participants were asked if there are any other risks that family manufacturing businesses commonly face. The majority agreed that the right strategic policy should eliminate all the other risks. However, two participants noted that Maltese family business owners often invest in the wrong types of assets.

"Rather than investing within the operation itself, they go and buy a property."

This indicates a misalignment between investment decisions and business needs. Furthermore, another participant noted that family businesses are commonly facing the human resource risk as a growing concern, particularly in the context of labour shortages and increased demand for employees. The participant explained that businesses lacking formal structures, strategic direction, and clear performance-related policies are more likely to adopt a reactive approach, making it difficult to retain employees in today's dynamic labour market.

Table 15: Computation of Descriptive Statistics for the concern of corporate governance risks for family-owned business as perceived by the interview participants.

Descriptive Statistics

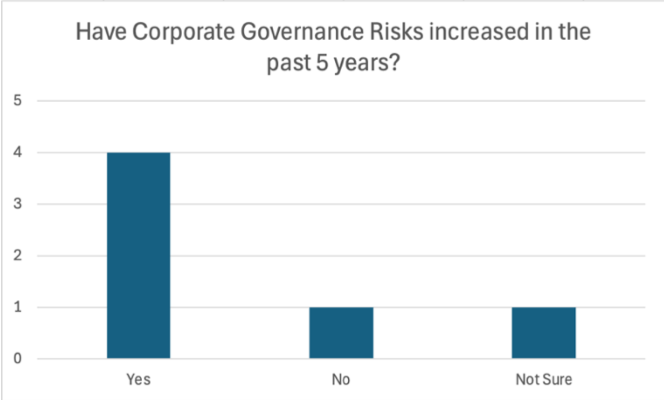
	N	Range	Minimum	Maximum	Mean	Std. Deviation
Succession Issues	6	3.00	2.00	5.00	3.0000	1.09545
Lack of Formal Governance	6	2.00	1.00	3.00	2.5000	.83666
Informal or undocumentated decision-making	6	2.00	1.00	3.00	1.5000	.83666
Lack of accountability and transparency	6	2.00	3.00	5.00	3.8333	.75277
Conflict between family and business roles	6	2.00	3.00	5.00	4.6667	.81650
Resistance to change (generation bias)	6	2.00	3.00	5.00	3.6667	.81650
Reputational risk due to weak governance	6	1.00	2.00	3.00	2.5000	.54772
Financial Compliance or reporting issues	6	2.00	3.00	5.00	4.0000	.89443
Valid N (listwise)	6					

Source: Author's Compilation (2025)

Descriptive statistics were used to compare the concerns of governance risks of family businesses as perceived by the interview participants, as illustrated in Table 15.

Conflict between the family and the business deemed to be the most concerning risk with a mean score of 4.67. This was followed by financial compliance and/or reporting issues and lack of accountability and transparency having a mean of 4 and 3.83 respectively. By contrast, informal and/or undocumented decision making and lack of formal governance structures were viewed as less concerning. The highest variability was observed in succession issues having a standard deviation of 1.10.

Figure 21: Interview participants opinion to corporate governance risk increase in the past 5 years.



Source: Author's Compilation (2025)

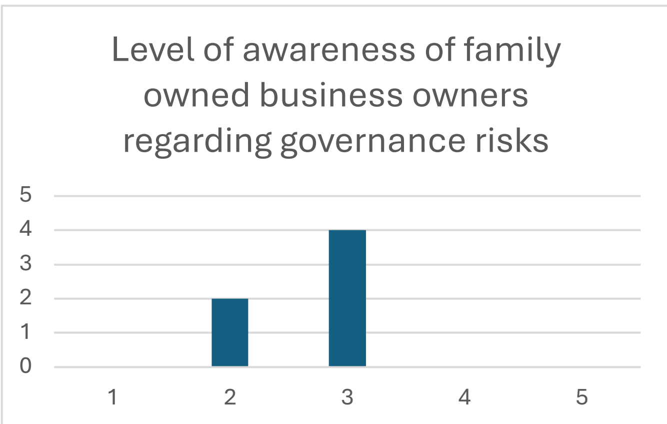
The next question covers, whether corporate governance risks have increased in the past 5 years. As shown in Figure 21, most of the participants agreed that corporate governance risks have increased in the past 5 years. Two participants observed that Malta's listing on the grey list reflected wider governance deficiencies.

On the other hand, participant B argued that such risks decreased, as family businesses have become more aware of the problems and are gradually adopting more structured governance practices. Participant C expressed uncertainty, suggesting that while awareness may be improving, the increasing complexity of the regulatory requirements continues to pose various challenges.

The eighth question asked if there was a primary cause for governance risks. All participants noted that these risks are widespread due to a lack of formal structures and strategic planning. Three participants highlighted that many family businesses operate reactively, without proper succession plans, advisory support, or clearly defined roles. Participant E further emphasized that resistance to change, particularly from the older generations make these situations worse. Subsequently, participant C observed that the current competitive and highly regulated business environment exposes structural weaknesses in firms that fail to plan or adapt effectively.

The ninth question solicited the participants' opinion to rate the level of awareness of overall governance risk among family-owned businesses with reference to local manufacturing firms. As Figure 22 perceive, most of the respondents agreed to a moderate level of awareness. Participants shared their views that although some progress has been made, awareness is still at surface level. They emphasized that awareness tends to be higher in larger firms or those with external advisory support.

Figure 22: Interview participants' opinion on the level of awareness of family-owned business owners regarding governance risk.



Source: Author's Compilation (2025)

The tenth question raised a lot of discussion among participants, as it focused whether governance risks from weak governance impact the day-to-day operations or long-term sustainability of the family manufacturing business.

The majority of the participants agreed that this will affect both the day-to-day operations and long-term sustainability. However, a common related issue was the operational mindset. Participants A, B and E each suggested that family-owned businesses in Malta tend to operate with a short-term focus, prioritising daily tasks over long-term strategic planning. Participant A explained this pattern using the Eisenhower Matrix, a framework that helps individuals and organisations classify tasks based on urgency and importance. This is shown in Figure 23.

Figure 23: Eisenhower Matrix

	Urgent	Not Urgent
Important	**QUADRANT 1** **Tasks with deadlines or consequences**	**QUADRANT 2** **Tasks with unclear deadlines that contribute to long-term success**
Not Important	**QUADRANT 3** **Tasks that require your attention, but do not have deadlines or severe consequences**	**QUADRANT 4** **Unnecessary tasks, distractions, and time-wasters.**

Source: (Columbia University, 2023)

Participant A explained that tasks in quadrant 3 are urgent but not important. These include minor operational tasks that can be delegated as they would not require the owner's direct involvement. Tasks in quadrant 4 are neither important nor urgent, and should be removed completely, as they offer little to no value to the business.

The difficulty, according to participant A is that most family businesses spend most of their time in quadrant 1. These are tasks that are both urgent and important, such as problems with delivery vans, or supplier delays. While focusing only on tasks in quadrant 1 means that tasks in quadrant 2 are completely ignored, which are important but not urgent, like digital transformation, or governance reforms such as improving how the business is managed. As stated, *"They work only on today's problem, not in a strategic way for the future."* This further backed up the answers to question five, that strategic policy risk is the most common type of risk that they face.

The final question of this section that was tackled during the interviews asked whether risks differ between first-generation and multi-generation family firms in Malta. The respondents shared various opinions on this question.

Participants A and B noted that multi-generational firms, are often more structured, however they may carry outdated practices and show less awareness of governance risks due to inherited habits. In contrast, participant E, observed that nowadays first-generation businesses may be more open to adopting good governance practices, as they have better access to education and digital tools and thus may be more systematic in their approach. However, two other participants explained that early-stage businesses often see formal governance as unnecessary, though risks increase as the business grows and family complexity increases.

4.3.4 Theme 3: Governance Sustainability, Succession Issues and Family Dynamics

Theme 3 discusses governance sustainability, succession issues and family dynamics. The first question asked participants whether they had encountered family businesses that had implemented structured succession plans or long-term governance tools.

All participants agreed that this was rarely the case. Four participants commonly mentioned that when succession plans are introduced, they tend to be reactive as these would be triggered by internal conflict, or generational pressure, rather than being implemented early as a preventive measure.

Another common issue under governance sustainability was nepotism and rigid family hierarchies. This often prevent the adoption of objective and professional governance practices. Participant E highlighted that management decisions are frequently based on family ties rather than merit. This sheds light on the conflict between the family and the business role as a significant concern as already discussed in theme 2. Participant A mentioned this concern, explaining that appointments of unqualified personnel often result in weak leadership, particularly when other employees or family members question the decision.

Moreover, all participants agreed that discussing or adopting to Environment, Social and Governance (ESG) principles is rarely the case. These initiatives often viewed as raising additional costs, with no immediate return as explained by Participant C. Participants noted that this lack of early engagement in such forward-looking tools or external advisory roles reflects a broader difficulty in aligning governance with long-term business resilience.

Lastly, participants were asked to comment the biggest challenges that family businesses face when trying to implement governance tools that support long-term sustainability. Participant A and B mentioned that family-business owners often lack the time to focus on such matters. Other participants argued that the main issue was lack of resources, such as funding or skilled personnel. Furthermore, three participants highlighted a general lack of education and awareness in Malta, noting that owners were not informed or trained enough to understand the long-term benefits of good governance practices.

4.3.5 Theme 4: Mitigating tools and awareness

Theme 4 discusses the current mitigating tools and awareness to governance risks. All participants agreed that education and training on governance risk are still lacking to family-owned businesses. Participants A and B stressed that more awareness and practical guidance are needed, especially through outreach and mentorship. Another participant pointed out, however, that even when training is provided, this usually involves the same group of participants. Participant D suggested that whether state or non-government institutions, they should take a more proactive role by visiting the businesses directly and providing the necessary information.

Subsequently, participants were asked what kind of support would be the most useful from the governance-related risk standpoint. Most participants mentioned a combination of financial incentives and direct engagement would be helpful. However, participants pointed out that such support will only be effective if family business owners are willing to receive it. This highlights the need not just for external help, but also for a change internally in the mindset amongst family-business owners, so that governance is seen as a priority rather than an optional tool.

4.4 Triangulation Discussion

Governance risks are perceived differently, when compared and contrasted between all the participants that took part in this study. It was noted that although both stakeholder groups recognise similar risks, they differ significantly in how they respond to them. Professionals take a broader, more forward-looking view, while business owners often focus on immediate, practical concerns.

This study highlighted several key governance challenges, with succession planning being the one that raised a lot of concern. However, nearly half of those firms sampled, admitted to not having a plan in place. This indicates that while awareness may exist, it is rarely acted upon. Interview findings supported this, showing that succession planning tends to happen only in response to conflict or urgency, rather than as part of long-term strategy. This reactive approach aligns with what Le Breton-Miller, et al. (2004) describe as a common weakness in family businesses that threatens business continuity and long-term sustainability.

Another challenge identified in this study is the lack of strategic direction within family-owned businesses. Many survey respondents showed signs of what interview participants called an *“operational mindset,”* where urgent day-to-day matters are prioritised over strategic planning. The professionals interviewed, noted that while smaller firms may not view strategic planning as a priority, its absence exposes them to risks that could have been anticipated or avoided. This observation is supported by Neubauer and Lank (2016), who argue that when family firms overlook strategic foresight, they will risk of becoming stagnant and less able to adapt to change.

The limited use of formal governance structures also emerged as a key theme. Although just over half of the survey participants indicated that such structures were in place, only a small number involved external advisors or non-family members. Most relied on informal, internal family discussions. This stands in contrasts to the literature, which suggests that involving third-party voices can improve accountability and reduce internal bias (Miller & Le Breton-Miller, 2006).

A related issue is the role of financial and compliance practices. The survey data showed these were not ranked as high-risk areas by most business owners. However, professionals described them as poorly managed in many cases. Financial reporting was often seen as a basic compliance task, lacking the strategic use of data for monitoring performance or identifying early warning signs. This suggests that business owners may underestimate the long-term effects of weak internal controls.

The findings of this study closely align with those presented by Beattie (2018), who examined governance practices of small family-owned firms. Beattie (2018) observed that many firms operate with minimal strategic planning and rely heavily on informal systems. His research also highlighted a tendency to undervalue financial reporting as a governance tool, particularly when firms lack external accountability. As the author's study and Beattie's study suggest, without a shift in mindset and stronger support, family businesses will remain exposed to governance risks.

Moreover, this study revealed a gap between literature and practice in relation to ESG (Environmental, Social, and Governance) principles. International standards such as the OECD Guidelines for Multinational Enterprises or the EU Corporate Sustainability Reporting Directive (CSRD), promote the integration of ESG into the business governance. However, most survey participants in this study had not adopted these practices. Both the survey conducted, and interviews indicated that ESG is often viewed as a costly or irrelevant, particularly by smaller firms. This may indicate a gap between global frameworks and the practical concerns of Maltese family-owned businesses.

In terms of risk mitigation, external audits were the most frequent practice reported in the survey, due to regulatory requirements. However, other measures such as strategic reviews, risk registers, or formal governance audits were much less common. Risk registers are considered a useful tool for identifying and managing risks, especially in firms with limited resources or formal oversight (OECD, 2021). Interviews confirmed that most mitigation efforts depend on the business owner. This approach may work in smaller settings but may become problematic as the business grows or transitions to new leadership as noted by Gersick, et al., (1997).

Whilst organisations like the Family Business Office and Malta Enterprise offer schemes and training, participation tends to be low and often involves the same audience. The majority of the interviewees observed that many family firms are unaware of these services or rather do not see their relevance. Other interviewees mentioned a reluctance to seek help due to pride or fear of interference. As a result, outreach initiatives such as business visits or mentorships may be more effective in reaching businesses that are less engaged from the available support.

4.4.1 Governance Compliance Costs and Agency Problems within Small Family-Owned Firms

National statistics confirm that over 70% of family businesses in Malta operate as micro, small, or medium-sized businesses (The Malta Chamber, 2023). Beattie (2018) has highlighted the fact that governance compliance is a costly process for small family firms and may generate agency problems which are peculiar to these businesses. Beattie (2018) cites the International Finance Corporation's Handbook on Corporate Governance for the Family Business (2011), which highlights the fact that several family businesses do not pay sufficient attention to key governance issues such as CEO succession planning, family member employment within the firm as well as attracting and retaining skilled outside managers.

However, Beattie (2018) also observes that the implementation of corporate governance mechanisms causes difficulties within such firms. Particularly, in terms of both direct or systemic costs of governance mechanism implementation, as well as less explicit costs such as proprietary and reputational costs. These costs that accompany the introduction or expansion of company governance structures provide one reason why the author study’s findings do not portray a clean bill of health in terms of governance implementation, at least from the sample of firms surveyed.

Furthermore, as Wellalage and Locke (2011) observe, agency costs are influenced by factors such as leverage and the business size. In family businesses, these costs are further complicated by agency problems specific to their structure such as conflict of interest between family shareholders and the family at large.

Therefore, Wellalage and Locke (2011) identify three additional types of agency conflict affecting family business, namely:

a) the conflict of interest between business shareholders and company managers.
b) the conflict between controlling company family shareholders and non-controlling shareholders.
c) the conflict between shareholders and creditors.

Herein lie another reason why the author study's points to mixed results relating to the attainment of comprehensive governance structures in place for this study sample of firms surveyed.

The situation observed in Malta, mirrors to some extent, that in Australia. Heenetigala et.al (2011) have observed that small business owners tend to shy away from best practice governance, preferring to leave such matters to the company accountant or lawyer in view of the complexity of governance compliance legislation which tends to have been drafted with big business in mind.

4.5 Conclusion

This study has revealed a clear difference in how governance related risks are perceived by the business owners surveyed and professionals interviewed. Both groups agreed on the importance of succession and strategic planning. However, they differed in how seriously they viewed issues like financial compliance or the need for independent oversight. Professionals described most governance practices as reactive and surface-level. Whilst business owners were more likely to express confidence in informal, family-based systems. This contrast reflects differing levels of experience, exposure, and trust in external input.

It is intuitively clear that this study has focused on family-controlled firms under the current officially legal definition as provided in Chapter 2. It should additionally be noted that the survey findings cannot be generalised to the entire sector of local family-owned manufacturing entities. This notwithstanding this study’s results, albeit varied, point in a direction that may indicate that concerns over governance risks are arguably tangible within the Maltese family-owned, generally, not least, those that fail from the manufacturing industry.

This study demonstrates that while family business owners operating in the manufacturing in Malta are aware of key governance risks, many still rely on informal systems and short-term thinking. As mentioned previously in the discussion, Section 4.4, the literature supports the view that stronger structures, independent oversight, and long-term planning are essential for resilience. However, the gap between theory and practice remains wide. Addressing this will require a combination of tailored support, financial incentives, and a cultural shift in how governance is understood within the family business context. The next chapter will discuss the concluding remarks of this study, including any other recommendations, the research limitations as well as areas for further research.

Chapter 5: Conclusion

5.1 Introduction

This chapter concludes this study by providing a general outline of the findings, as well as providing further recommendations to the findings presented in the previous chapter. These findings align with the research question and objectives identified in Chapter 1. Furthermore, this chapter outlines the study limitations and areas for further research.

5.2 Summary of the main findings

This study focused on the different stakeholders' perception of corporate governance risks of family-owned business who have a limited liability structure operating in the manufacturing industry. As discussed in Chapter 1, the research was based on the following research question:

> Which are the most important risk aspects effecting the corporate governance of family-owned businesses and what possible governance-related risk mitigating measures may be taken in order to address such risks for family-owned limited liability businesses?

At the end of this study, the author was able to gather information and data in order to be able to achieve the following research objectives:

1. To highlight the major risks and challenges of corporate governance as applied to family-owned manufacturing businesses in the Maltese islands which have a Limited (LTD) legal structure.
2. To compare and contrast the identification of such corporate governance risks based on the perception of two different stakeholder segments, namely experts and officials representing family-businesses and actual family businesses market actors in the field in Malta.
3. To determine whether or not significant discrepancies exist between the perspectives on corporate governance risks in terms of the views expressed by both stakeholder segments and the actual governance risks highlighted in the extant literature.
4. To suggest possible or potential mitigating measures that may be taken in the Maltese context with reference to the risks related to the governance of such firms, that are identified from the research findings.

This study revealed that governance in Maltese family-owned businesses is often informal and reactive. Decision-making is usually centralised with the business owner. The most common identified governance risks that family businesses face include succession planning failures, the persistence of an operational mindset rather than strategic, nepotism and conflict of interest. Gaps in transparency and resistance to change were also frequently noted.

When considering formal governance tools, few of the family businesses surveyed have adopted a family constitution, a family council or a family assembly. In most cases, governance tools were introduced reactively, often after disputes, generational changes or external regulatory pressure. Larger or multi-generational businesses were more likely to formalise governance structures. On the other hand, newly established family businesses tended to avoid them, mainly due to limited resources, and a preference for informality.

The interview participants suggested mitigated measures. These included education, training, mentorship, outreach visits, and financial incentives. However, all participants agreed that uptake will depend on cultural change within families. Opportunities such as seminars or support schemes are already available, yet attendance remains low, reflecting the difficulty of shifting the culture toward good governance.

The findings suggest that corporate governance best practice in Maltese manufacturing family-owned firms surveyed remains underdeveloped. The risks are widely acknowledged in theory, but they are often downplayed in practice. While awareness is improving, particularly among younger generations, the gap between recognition and implementation remains substantial.

5.3 Limitations of the study

Despite its contributions, this study faced certain limitations that were acknowledged. The research focused solely on family-controlled firms under the current officially legal definition as provided in Chapter 2. It should additionally be noted that the survey findings cannot be considered as statistically representative for the entire sector of local family-owned manufacturing entities. Although it captured nearly half of the targeted population, the full sample size was not reached. Nonetheless, the results may indicate concerns over governance risk that are arguably present within Maltese family-owned firms.

Furthermore, the sample size of interviews conducted was relatively small, which may not reflect the full range of views and practices within the sector. Although thematic saturation was achieved, not all possible stakeholder groups were represented. Moreover, participants varied in their levels of corporate governance knowledge, which influenced the depth of responses.

Efforts were made by the author to include participants who could represent wider perspectives within the manufacturing industry, and these included both family business owners and professional bodies. However, the restricted sample size and tight timeframe may have constrained the study's ability to capture the full range of insights and experiences.

5.4 Recommendations

These recommendations formulated by the author, are based on the analysis and findings of this study. The aim of these recommendations is to provide practical measures that family-owned businesses, professional bodies, and institutions can adapt to strengthen governance practices and reduce governance risks.

5.4.1 Family businesses

Family businesses should move towards adopting structured governance structures such as developing a family constitution or basic policies on duties and roles of employees and dividend contributions. These measures even if implemented at a basic level, provide clarity and consistency. Moreover, the study carried out by Baldacchino, et al., (2019) stressed the need, to implement formal family governance practices tools to strengthen the communication between family members, and the family and company structures. These governance structures provide clear guidance especially for the business' future.

Early and structured succession plan should also be prioritised. The succession plan must be seen as a continuous process, with draft plans reviewed regularly to ensure stability and leadership continuity between family generations. This recommendation further echoes the findings in Miller and Le Breton-Miller (2006) study who argued that planning formal governance practices are essential for long-term survival in family-businesses.

Family businesses should move purely from an operational mindset and adopt more strategic thinking. Practical tools such as SWOT analysis, scenario planning, and the use of the Eisenhower matrix can help balance the short-term needs with long term goals. These clearly highlights the importance and need for enhanced business education across the business sector.

Another recommendation is the importance of appointing at least one third-party member within the board. External advisors or non-family directors, even if engaged part-time, can strengthen the accountability and reduce nepotism while offering objective expertise.

5.4.2 Professional Bodies and Institutions

Corporate governance education and mentorship is recommended to be strengthened in the Maltese Islands. Beyond traditional seminars, initiatives such as structured mentorship and peer-to-peer learning can provide practical and trust-based support. These programmes that are introduced should therefore be designed to be more interactive and engaging, particularly to younger generation, who are often more open to the change and willing to learn.

Outreach programmes should be provided by the Malta Enterprise, Family Business Office and the Malta Chamber of Commerce. These institutions should prioritise direct visits to family businesses as these are often more effective than centralised events, which normally attract the same limited audience. These direct visits offer tailored guidance and practical advice within the firms' own context which otherwise remain disengaged.

Financial incentives may be used to encourage adoption of governance practices. These may include subsidies, grants, or tax credits tied to corporate governance improvements, such as the creation of family constitution, or drafting a succession plan. Support could be tied to the inclusion of external advisors. These measures would make investment in governance more attractive.

Regulators as well as banks should play an active role in promoting governance by linking funding or regulatory approvals with evidence of good corporate governance practice. Requiring family businesses to provide succession outlines, board minutes, and a formalised dividend policy would ensure that governance structures are being embedded in practice.

5.5 Areas for further research

While this study offers insights into the perceptions of governance risk in Maltese family-owned businesses, there remain several areas that merit further research. For instance, researchers could examine the perception of governance risk of family businesses who operate in other sectors such as retail, hospitality or financial services. This may include investigating if such businesses face distinct governance challenges shaped by their operating environments, regulatory requirements, or market dynamics. In this regard, sectoral comparisons would therefore offer a richer understanding of whether the risks identified in this study are industry specific or reflect wider patters across the Maltese family-owned businesses.

Another major area for further research is the issue of generation transition. Succession planning is widely recognised as one of the most critical risks for family businesses. However, this study only captures perceptions at a single point in time. Longitudinal research that follows businesses across successive generational changes would provide deeper insight into how governance risks evolve. It would also show how the presence or absence of succession planning affects business continuity, family harmony, and long-term business sustainability.

Lastly, another area for further research relates to the role of professionalisation in family business governance. The appointment of non-family managers, independent directors, or external advisors has been highlighted as a potential mitigating measure in this study. However, further research is needed to assess the actual impact of such appointments. It is important to understand whether, and how, external expertise improves governance outcomes, reduces family conflict, or enhances strategic decision-making. These findings would provide valuable guidance for both family business and regulatory bodies in Malta.

5.6 Concluding Remarks

In this study, the author provides and sheds light on the understanding of governance risks in Maltese family-owned manufacturing businesses. Governance should be seen as a strategic tool for sustainability and growth rather than a regulatory formality. It shows that while weak governance creates instability, proportionate structures and forward-looking practices can improve resilience.

Stronger governance is important not only for family firms but also for Malta as a whole. It helps to protect jobs, preserve family legacies and support long-term sustainability. Going forward, the willingness of future generations to embrace good governance will be central to ensuring continuity and survival of the family business.

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Appendices

Appendix 1 – The Interview Questions Schedule

Thesis Title: Perception of Governance Risk in Maltese Family-Owned Businesses
Semi-Structured Interview with: ____
Date & Time: ____

Section 1: Background

1. What is your role in this industry?
2. What is the link between your job and family-owned businesses in Malta and the manufacturing industry?

Section 2: Corporate Governance Practices

3. How do you rate the importance of Corporate Governance Practice to family-owned businesses in Malta, between 1 (Strongly Disagree) and 5 (Strongly Agree)?

1	2	3	4	5
○	○	○	○	○

4. In your opinion, how important do you think these types of companies should have family governance mechanisms such as:

	1	2	3	4	5
Family Assembly	○	○	○	○	○
Family Council	○	○	○	○	○
Family Constitution	○	○	○	○	○
Shareholders' Council	○	○	○	○	○

Section 3: Perception of Governance Risk

5. From your experience in this industry, which of the following governance-related risks do family-owned businesses commonly face?

	Yes	No	Not Sure
Accounting Risk	○	○	○
Asset Risk	○	○	○
Liability Risk	○	○	○
Strategic Policy Risk	○	○	○

5.1 Apart from these risks are there any other type of risks? If yes, can you please mention them.

6. On a scale of 1 (low) to 5 (high), how much do you think family businesses are concerned about the following risks.

	1	2	3	4	5
Succession Issues	○	○	○	○	○
Lack of formal governance	○	○	○	○	○
Informal or undocumented decision-making	○	○	○	○	○
Lack of accountability and transparency	○	○	○	○	○
Conflict between family and business roles	○	○	○	○	○
Resistance to change (Generation bias)	○	○	○	○	○
Reputational Risk due to weak governance	○	○	○	○	○
Financial Compliance or reporting issues	○	○	○	○	○

7. Have corporate governance risks in such types of firms increased in the past 5 years? Please Explain.

Yes	No	Not Sure
○	○	○

8. What do you think is the primary cause (the root cause) of these risks?

9. In your opinion, what is the level of awareness that family business owners have regarding governance risks, from a scale of 1 to 5?

1	2	3	4	5

10. Do you think that the governance risks from poor or weak governance impact the day-to-day operations or long-term sustainability of the business?

11. In your experience, how do risks from weak governance differ between the first-generation and multi-generational family firms in Malta and Gozo?

Section 4: Governance Sustainability

12. In your experience, have you come across family businesses that have implemented structured succession plans and have long-term governance tools or sustainability goals in place?
13. ESG (Environment, Social and Governance) Principles are becoming important in today's context; in your opinion have these principles started being discussed or adopted in family-owned businesses?
14. What do you think is the biggest challenge for these companies to implement governance practices that support long-term sustainability?

Section 5: Mitigating Measures

15. In your opinion, do you think that enough education and training is given to family-owned business to better manage their governance risks?
16. What kind of other support do you think would be helpful for these types of companies in terms of improving their governance?
17. How can an institution like yours help more effectively family companies to improve their governance awareness and sustainability?

Appendix 2 – Questionnaire-based Survey Schedule

Perception of Governance Risk of Maltese Family Owned Businesses: Issues and Considerations

Thank you for taking the time to complete this survey.

This research is being conducted as part of my studies in Master of Science in Insurance and Risk Management at the University of Malta.

The aim of this study is to analyse the perceptions of governance risks in Maltese family-owned businesses which are limited to limited liability companies, with particular focus on identifying the essential aspects influencing governance structures and practices.

Your participation in this survey is entirely voluntary and all responses will be kept anonymous and confidential. This questionnaire-survey will take approximately **5-10 minutes** to complete. All information and data provided will only be used for academic purposes.

By proceeding with this questionnaire, you are providing informed consent to participate in this study.

If you have any questions or concerns. Please feel free to contact me on **corinne.deguara.21@um.edu.mt** or **+356 79893002.**

Thank you.
Corinne Deguara

* Indicates required question

Section 1: Company Profile

This section aims to gather general information about your business.

1. How many years has the business been in operation? *

Mark only one oval.

- 0-10 years
- 11-25 years
- 26-50 years
- 50+ years

2. Is the company currently managed by the *

Mark only one oval.

- First (1st) Generation
- Second (2nd) Generation
- Third (3rd) Generation
- Other: ______________________

3. In which sector does the company operate in? (ex. construction, manufacturing, wholesale and retail, financial services) *

Mark only one oval.

- Construction
- Manufacturing
- Wholesale and Retail
- Financial Services
- Other: ______________________

4. What is the legal form of your company? *

Mark only one oval.

- Sole Trade Ownership
- Partnership
- Private Limited Liability Company (LTD)
- Public Limited Liability Company (PLC)
- Government/non-profit organisations
- Other: ______________________

5. How many employees does the company currently have? *

Mark only one oval.

- ( ) 0-9 employees
- ( ) 10-49 employees
- ( ) 50-249 employees
- ( ) 250+ employees

6. What is your annual average sales turnover (€)? *

Mark only one oval.

- ( ) Less (<) than €1 million
- ( ) Less (<) than €5 million
- ( ) Less (<) than €10 million
- ( ) Less (<) than €50 million

Section 2: Corporate Governance Practices

This section aims to understand your business's governance structures and mechanisms.

7. Does the company have formal governance structures (e.g board of directors, an advisory board or board sub-committee(s))? *

Mark only one oval.

- ( ) Yes
- ( ) No

8. If yes, does the governance structure consist solely of family members?

Check all that apply.

- [ ] Yes
- [ ] No

9. Does the company have any of the following governance mechanisms? (Tick all that apply) *

Check all that apply.

- [ ] Family Assembly
- [ ] Family Council
- [ ] Family Constitution
- [ ] Shareholders' Council

10. How frequently does the leadership team (formal or informal) meet to discuss business strategy? *

Mark only one oval.

- ( ) Weekly
- ( ) Monthly
- ( ) Quarterly
- ( ) Half-yearly
- ( ) Yearly

11. Who primarily makes strategic decisions in the company? *

Mark only one oval.

- ( ) Founder/owner only
- ( ) Through family discussions
- ( ) Formal board of directors
- ( ) Mixed family and external advisors
- ( ) Other: ____________________

Section 3: Perceptions of Governance Risk

This section aims to understand the different perceptions and awareness on potential risks and challenges of corporate governance that your business face.

12. On a scale of 1 (low) to 5 (high), how concerned are you about the following risks: *

Mark only one oval per row.

	1	2	3	4	5
Succession Issues	⬭	⬭	⬭	⬭	⬭
Lack of formal governance	⬭	⬭	⬭	⬭	⬭
Informal or undocumented decision-making	⬭	⬭	⬭	⬭	⬭
Lack of accountability and transparency	⬭	⬭	⬭	⬭	⬭
Conflict between family and business roles	⬭	⬭	⬭	⬭	⬭
Resistance to change (Generation bias)	⬭	⬭	⬭	⬭	⬭
Reputational Risk due to weak governance	⬭	⬭	⬭	⬭	⬭
Financial Compliance or reporting issues	⬭	⬭	⬭	⬭	⬭

13. How would you rate your company's awareness to governance related risks from 1 (low) to 5 (high). *

Mark only one oval per row.

	1	2	3	4	5
Accounting Risk: The risk that your firm's financial statements recognition and disclosures are not complete or are misleading or misstated.	⬭	⬭	⬭	⬭	⬭
Asset Risk: The risk that your firm's assets may be misappropriate/stolen by managers or directors.	⬭	⬭	⬭	⬭	⬭
Liability Risk: The risk that the firm will enter into excessive obligations that may destroy the value of the shareholders' equity.	⬭	⬭	⬭	⬭	⬭
Strategic Policy Risk: The risk that your firm's managers enter into transactions or incur business risks which may not be in the long-term interest of the shareholders.	⬭	⬭	⬭	⬭	⬭

14. If any of the above risks were encountered, were these formally documented or recorded for future reference?

Mark only one oval.

⬭ Yes

⬭ No

15. How are governance related risks usually addressed? *

Mark only one oval.

- ( ) Informally between family members
- ( ) Through structured meetings with the Board of Directors
- ( ) With external advisors and/or legal support
- ( ) Risks are not formally addressed
- ( ) Other: ________________

Section 4: Governance Sustainability

This section aims to understand how your business incorporates long-term sustainability principles into its governance practices.

16. Do you have a formal succession plan for key leadership roles. *

Mark only one oval.

- ( ) Yes
- ( ) No
- ( ) In Progress
- ( ) No, but planing to develop one

17. If yes or in progress, does your succession plan address the following?

Mark only one oval per row.

	Yes	No
Leadership training for next-generation famliy members	⬭	⬭
Timelines and stages for leadership transfers	⬭	⬭
External advisory involvement	⬭	⬭

18. What do you see as the biggest challenge to implementing governance practices that support long-term sustainability? (Tick all that apply) *

Check all that apply.

- [ ] Lack of time/resources
- [ ] Lack of knowledge or expertise
- [ ] Resistance from family members
- [ ] Financial constraints
- [ ] Other: ______________________

Section 5: Mitigating Measures

This section aim to understand the current mitigating measures that are currently being used.

19. Does your company conduct any of the following to mitigate governance risk? (Tick all that apply) *

Check all that apply.

- [ ] Annual governance or compliance reviews
- [ ] External legal/ accounting audits
- [ ] Risk assessments related to family dynamics
- [ ] Regular strategic reviews or board meetings
- [ ] Maintain and update a formal business Risk Regulator which is reviewed on regular basis
- [ ] Other: ______________________

20. Who typically is responsible for governance-related risk mitigation in your company? *

Mark only one oval.

- ( ) The business owner(s)
- ( ) The Family Council
- ( ) External advisors (legal/accounting/consulting)
- ( ) A Risk or Compliance Manager
- ( ) No one currently holds this responsibility
- ( ) Other: ______________________

21. Tick the most applicable according to your company's practices. *

Mark only one oval per row.

	Yes	No	Not Sure
Is your Board inclusive with different backgrounds, skill sets and experience?	◯	◯	◯
Are the activities of the Board shared with relevant parties in a transparent manner?	◯	◯	◯
Is your business working towards environment and social best practices?	◯	◯	◯
Is your firm measuring progress in the ares of Environment, Social and Governance issues?	◯	◯	◯
Do your directors demonstrate strong leadership when it comes to operations in ethical and responsible ways?	◯	◯	◯

Appendix 3 – Questionnaire-based Survey published in the newsletter of the Malta Chamber of SMEs

SME Chamber

Invitation to businesses: Participate in Research

07 May 2025

Research: Perception of Governance Risk of Small-Family Owned Businesses: Issues and Considerations

My name is Corinne Deguara, and I am currently pursuing my Master of Science in Insurance and Risk Management at the University of Malta. As part of my studies, I am conducting a research for my thesis titled *"Perception on Governance Risks Relating to Small Family-Owned Businesses: Issues and Considerations."*

The aim of this study is to analyse the perceptions of governance risks in small, family-owned businesses, specifically those operating in the manufacturing industry as limited liability companies. The research focuses on identifying the key aspects that influence governance structures and practices. By gathering insights from various stakeholders and professional bodies, the study aims to provide practical recommendations that can help mitigate these governance risks.

Click here to participate in research

Source: https://www.smechamber.mt/invitation-for-businesses-research/
(The Malta Chamber of SMEs, 2025)

Appendix 4 – Interview Consent Form

Perception on Governance Risks in Maltese Family-Owned Businesses
(MSc in Insurance and Risk Management – University of Malta)

Purpose of the study:
The aim of this study is to analyse the perceptions of governance risks in family-owned businesses, specifically those operating in the manufacturing industry as limited liability companies in Malta. The research focuses on identifying the key aspects that influence governance structures and practices. By gathering insights from various stakeholders and professional bodies, the study aims to provide practical recommendations that can help mitigate these governance risks.

Your participation involves:
- The interview will be semi-structured and will last approximately 30-45 minutes
- It will cover topics related to governance structures, risk perceptions, and governance sustainability in family-owned businesses.
- With your permission, the interview will be audio-recorded for transcription and analysis purposes.
- You may choose not to answer any specific questions and can withdraw from the interview at any time.

Confidentiality and Data Handling:
- Your identity will remain confidential unless you explicitly agree to be identified.
- All data collected will be securely stored and used solely for academic purposes related to this study.
- Any direct quotes used in the final dissertation will be anonymised unless you consent otherwise.
- Data will be stored in accordance with the GDPR and the University of Malta's Data Management guidelines.

Your Rights
- You have the right to ask any questions about the study before or after the interview.
- You may withdraw your consent at any point without any consequences.
- If you have any concerns about your rights as a participant, you may contact the University of Malta Research Ethics Committee.

By signing hereunder, you are confirming that you have read and understood the above conditions.

____

Confirmation of Interview Completion

I, the undersigned confirm that Ms Corinne Deguara conducted the interview with me today on:

Date: ______________________________________

Location: ______________________________________

Interviewee Name: ___________________________________

Signature: ______________________________________