OPEN ACCESS Freely available online

ISSN: 2315-7844
Review of Public Administration and Management

Commentary

Degradation and Quality of Public Governance on Family Firm Business Strategy

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DESCRIPTION

The relationship between public governance and business strategy is complex, and it becomes particularly critical when family firms are involved. Family firms are a prevalent form of business ownership worldwide, playing a significant role in the global economy. The effectiveness and quality of public governance can significantly impact the strategies, operations, and sustainability of family-owned businesses. Family firms are characterized by their unique ownership and management structure, where one or more families hold a significant stake in the business. These firms are often seen as a symbol of entrepreneurship, innovation, and long-term commitment to their communities. In many countries, they are the backbone of the economy, contributing to job creation, economic growth, and local development. However, family firms also face specific challenges, such as succession planning, family conflicts, and limited access to external capital. Public governance, encompassing the legal, regulatory, and institutional framework within which these firms operate, plays a critical role in shaping their strategies and determining their long-term success.

Degradation of public governance

Corruption and unfair competition: A corrupt environment can create uneven playing fields, where businesses with political connections or a willingness to pay bribes gain advantages. This undermines the principles of fair competition and may force family firms to engage in unethical practices to survive.

Legal and regulatory uncertainty: Frequent changes in laws and regulations, coupled with inconsistent enforcement, can disrupt business planning and decision-making. Family firms operating in such environments struggle to predict the regulatory landscape, which can hinder their strategic growth and investment.

Property rights and rule of law: Weak property rights and an unreliable rule of law can deter family firms from investing in long-term projects and expanding their operations. The lack ofconfidence in legal protection may also affect their willingness to innovate and take risks.

Political instability: Family firms prefer stable and predictable political environments to thrive. Frequent changes in government leadership, political unrest, and conflict can disrupt supply chains, customer relationships, and the overall business environment.

Impact on family firm business strategy

Risk aversion: In contexts with poor public governance, family firms tend to adopt risk-averse strategies. They may avoid high-risk, high-reward opportunities and opt for conservative business plans to protect their assets and ensure survival.

Geographical expansion: Family firms in regions with stable and high-quality public governance often pursue aggressive geographical expansion strategies. In contrast, firms in areas with governance issues may be hesitant to invest beyond their current borders, limiting their growth potential.

Resource allocation: Family firms operating in a corrupt environment may allocate substantial resources to navigate regulatory hurdles, including legal counsel and lobbying efforts, diverting valuable capital away from business expansion and innovation.

Succession planning: Public governance can significantly impact the dynamics of family succession. A volatile political environment may discourage the younger generation from joining the business or continuing the family legacy.

Ethical considerations: Family firms often prioritize ethical and responsible business practices. In regions with poor public governance, they may face ethical dilemmas and choose between compromising their values or exiting the market.

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Received: 02-Oct-2023, Manuscript No. RPAM-23-23722; **Editor assigned:** 05-Oct-2023, Pre QC No. RPAM-23-23722 (PQ); **Reviewed:** 19-Oct-2023, QC No RPAM-23-23722; Revised: 26-Oct-2023, Manuscript No. RPAM-23-23722 (R); **Published:** 02-Nov-2023, DOI: 10.35248/2315-7844.23.11.423

Citation: Shan W (2023) Degradation and Quality of Public Governance on Family Firm Business Strategy. Review Pub Administration Manag. 11:423.

Improving the quality of public governance

Advocacy and lobbying: Family firms can participate in advocacy efforts to improve the business environment by working with industry associations and other stakeholders to influence regulatory reforms and transparency.

Diversification: Family firms can diversify their business operations and revenue streams to mitigate risks associated with unstable governance. This may involve entering new markets or industries with more favorable governance conditions.

Internationalization: Expanding into international markets can provide family firms with opportunities to operate in regions with better governance and gain exposure to diverse business environments.

Engagement with civil society: Family firms can actively engage with civil society organizations and non-governmental organizations to promote responsible business practices and advocate for good governance.

Corporate Social Responsibility (CSR): Family firms can use their resources and influence to support social and environmental initiatives, fostering goodwill and a positive image even in challenging governance environments.

Public governance is a critical factor influencing the strategic decisions and long-term success of family firms. The degradation of governance can lead to challenges such as corruption, legal uncertainty, and political instability, affecting family firm business strategies. To mitigate these challenges, family firms can engage in advocacy, diversification, internationalization, and corporate social responsibility, among other strategies. Ultimately, improving the quality of public governance for creating a conducive environment for family firms to thrive, contribute to economic growth, and uphold their values and ethical principles. The symbiotic relationship between public governance and family firm business strategy underscores the importance of addressing governance issues to ensure the vitality and prosperity of these businesses.