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The Study of the Relations among Ethical Considerations, Family Management and Organizational Performance in Corporate Governance

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ABSTRACT. Corporate governance is increasingly becoming an issue of global concern, not least because we are more and more living in a corporate world that transcends international boundaries. The main purpose and motivation of this study is to determine how the international community should motivate businesses in fostering exemplary corporate governance, therefore eliminating obstacles to ethically exemplary behavior. The empirical approach utilized here has been applied to 161 businesses, both listed and over-the-counter (OTC) companies, with the results indicating that ethical considerations, corporate governance and organizational performance are inextricably linked and, to an extent, demonstrably proportional. This study also indicates a major finding that family management is a significant mediating variable of the ethical considerations of corporate governance and organizational performance. Finally, this study has developed an *operational model of ethical considerations of corporate governance* as a consultancy aid for businesses that wish to implement and/or boost their performance in respect to corporate governance.

KEY WORDS: corporate governance, ethical considerations, family management, organizational performance

Introduction

Most governments, including Taiwan's, implicitly make various regulations to restrict behaviors of an organization since corporate governance is globally valued and implemented. Many regulations, however, cannot be practically embodied by companies in implementing corporate governance. For example, the establishment of the independent directors system is almost void, or accountability is not entirely effective. Complex reasons, business self-discipline or leaders' moral recognition, above all, can result in these situations.

This study emphasizes the discussion of ethics within corporate governance offering certain suggestions to explore potential ethical crises and to enhance ethical influences on corporate governance. These suggestions aim is to develop best practices for corporate governance in a way that promotes the performance and competitiveness of organizations that embrace them.

Quantitative research is applied within this study. The author selected 161 listed or OTC companies in Taiwan and delivered a questionnaire to each. The design of the questionnaire sprang from literature studies and case interviews with representatives of three listed companies in Taiwan. The questionnaire items reflect what emerged as key factors of ethical considerations in corporate governance including considerations such as ethical leadership, as well as variables including family management and organizational performance. Due to this preparatory work, the author was able to focus on key facets of behaviors that drive and define corporate governance.

The author obtained certain major findings. Key amongst these was correlations between the variables of ethical considerations of corporate governance, family management, corporate governance practices and organizational performance. Of particular

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interest is the identification of family management as the critical mediating variable between ethical considerations of corporate governance and organizational performance.

Theoretical background

Conditions in the ethical considerations of corporate governance

Corporate governance is a complex and multi-dimension matter, not just a function of finance or accounting (Collier and Roberts, 2001; Peters, 1996; Wieland, 2001). The matters of corporate governance include ethical considerations such as the self-discipline and honesty of high-level managers, as well as internal measures to avoid fraud in the company. Ethical considerations include the following major conditions:

- Corporate governance, which may be regarded as ethical behaviors among stakeholders
- Corporate governance, which should include the recognition of ethical leadership
- Creative mechanism as a tool to ensure ethical corporate governance.

Corporate governance, which may be regarded as ethical behaviors among stakeholders

Ethics is a necessary element in corporate governance. In other words, ethics should necessarily transcend – and drive – every reform in corporate governance (Verschoor, 2002; Gasorek, 2003). A Japanese study on the Shisheido Corporation (Mizno, 1999) discovered that, typically, well-run corporate governance clearly identifies ethical considerations. The study also found that corporate governance promotes not only product quality but also employee quality, and thus demonstrates unequivocally that employee quality can be promoted through ethical considerations.

Mizno's study indicated that the Shisheido Corporation organized a Shisheido Committee of Business Ethics that encourages branch employees to be good citizens. In this way employees, stakeholders and society in general can share the corporate interests of Shisheido. (For those readers who are not Oriental, the head office of Shisheido also translates their Code of Ethics into English for its overseas branches. Copies may be available.)

Mizno's study points out that corporate governance should emphasize the common interests of employees, stakeholders and society. Such corporate governance, when it is benign, is effectively inextricable from laudable ethics. Actually, the thrust of corporate governance should also emphasize the necessity of a company to devolve some power to employees whilst negotiating with its stakeholders (such as consumers, the government, competitors and suppliers) in order to distribute and achieve mutual goals (Child, 2002). This emphasis on protecting the best interests of every stakeholder characterizes ethical considerations.

Corporate governance, which should include recognition of ethical leadership

Many business leaders in the US rightly criticize the greed and self-interest that results in investor distrust of companies (Byrne et al. 2002). The president of Goldman, a US blue-chip company, represents such believers of ethical leadership. These are people who actively criticize the problems in their own enterprises and admit the prevalence of insufficient self-discipline within American businesses; they believe that corporate governance implies a responsibility to manage companies well.

A business leader, of course, should also recognize that a major goal of corporate governance is to build (or rebuild) public trust in their company. New laws and regulations can restore some public trust (Wharton, 2003), but that is only part of the answer. Businesses should also be aware of their own problems and proactively solve them (Byrne et al., 2002). It is obvious that the attitude of business leaders or high-level managers (those who can effectively gauge, admit and resolve problems within their own businesses) is critical to ethical leadership and the effective execution of corporate governance.

Creative mechanism as a tool to ensure ethical corporate governance

Whilst a business can frankly criticize and examine itself, how to deal with the problems becomes a more vital issue. Building up various new systems, namely 'creative mechanisms,' occurs consequently. This includes setting up mechanisms, for example, to avoid fraud (Thornton et al., 2002), setting up mechanisms to stop defaults or illegally 'cooking the books' in accounting (Nocera, 2002), or installing mechanisms that 'promote ethical conduct' to encourage moral behavior by employees (De Mesa Graziano, 2002).

Corporate governance, of course, implies the regulation of new commandments (Gerrish and Cocheo, 2002). This type of regulation is intended to constrain the behaviors of employees or their contacts with external related personnel through ordinances and regulations such as those contained within the company's code of ethics. For example, an ordinance could possibly regulate the number of independent external (i.e. non-executive) directors on the board of directors in order to ensure fairness and dynamic performance. Where such regulations exist to develop the spirit of corporate governance, they should be considered as a creative mechanism.

Critical factors of ethical consideration in corporate governance

To understand the traits of corporate governance in Chinese businesses, the author selected three small and medium enterprises (SMEs) and large enterprises and used an in-depth interview approach on them. Consequently, there are three critical factors influencing ethical consideration, viz. (1) supervision and balancing, (2) legitimacy, and (3) capital gathering.

With respect to supervision and balancing, participants believed that avoiding the board of directors and managers' abuse of power is the essence of corporate governance. Supervising and balancing is a kind of ethical performance for participants, especially where many businesses in Taiwan are in control of their family members. The belief held by participants, actually, is to conform to the purpose of governmental organizations in Taiwan to promote corporate governance (Securities and Futures Institute, 2001). Western scholars share the opinion that good corporate governance needs to include the mutual supervision of managers and the division of decision-making management from being too controlling (Diacon and Ennew, 1996; Steiner, 1996).

With reference to legitimacy, participants believe that it is justifiable and ethical for businesses that follow governmental regulations to manage their businesses. The concept of legitimacy is also encouraged in academic and business circles (Fama and Jensen, 1983; Liu, 2002).

Regarding capital gathering, participants believe that good corporate governance promotes business image and is beneficial for gathering capital in the capital market. Some scholars in Taiwan agree with the participants' opinion (Cheng, 2005; Yeh, 2001).

Consequently, the main contents of the variables of ethical consideration in this study include the three aforementioned critical factors obtained from the in-depth interviews plus the two conditions of ethical leadership and creative mechanism in the theoretical background section. These five factors are closely related to corporate governance and will be stated as follows.

Close relations between ethical considerations and practices of corporate governance

The world-known Organization for Economic Co-operation and Development (OECD) defines the five principles of corporate governance measuring corporate governance practices as (1) protecting shareholders equally, (2) protecting the rights of stakeholders, (3) protecting the rights of shareholders, (4) enhancing information transparency, and (5) enhancing the function of the board of directors (OECD, 1999).

These five principles are quite related to ethical considerations. For principles like enhancing information transparency and enhancing the function of the board of directors, it is necessary to establish a creative mechanism in the business and develop the supervision and balancing function. Additionally, principles such as protecting shareholders equally, protecting the rights of stakeholders and protecting the rights of shareholders are causal related to the variables of legitimacy (businesses should follow governmental regulations to protect stakeholders) and capital gathering (good corporate image can consequently appeal to the trust of investors and their investment) in ethical considerations. These relations are dependent on corporate managers holding the spirit of ethical leadership and whether the interests and rights of stakeholders can be shared and protected.

Based on the possible relations between ethical considerations and corporate governance practices, the author established certain hypotheses and explored the results. Meanwhile, based on the factors of ethical considerations and the content of corporate governance practices, the author designed the questionnaire items of the study (please see Appendix 1) to verify the feasibility of the hypotheses.

The insignificance of corporate governance in the east

Standard and Poor's Corporation in the US and Credit Lyonnais Securities Asia (CLSA) investigated the efficacy of corporate governance practices in Asian countries. They found that Taiwan, China, the Philippines and Indonesia fell well short of optimal corporate governance performance (CLSA, 2003; Standard and Poor's, 2001). They suggested the following three major measures for improving corporate governance in Asia:

- Responsibility (such as mechanisms to effectively punish high-level managers who cause damage to companies)
- Fairness (i.e. fairness and justice emphasizing shareholder rights)
- Accountability (the effective actions of the directorate to practice supervision)

Yet, for these three necessary measures to be implemented, it is essential to introduce legal statutes. Laws, however, are not a cure-all. If business leaders and high-level managers are not highly self-disciplined and don't want to readily recognize ethical considerations (such as fair treatment of stakeholders and employees, and being generally socially responsible), then the practice, policing and enforcement of corporate governance will still be difficult to achieve.

Effective self-discipline and recognition of ethics by leaders or high-level managers is, in fact, closely tied to family management. This is particularly so in the Chinese-speaking world (including Taiwan) where family management constitutes an effective influence on the execution of altruistic and effective corporate governance. This concern therefore becomes the main issue in this study, and is discussed as follows.

The influence of family management on corporate governance

Why would family management become a problem in corporate governance? A couple of possible reasons are that in order to protect their own family's interests, some family leaders are unwilling to disclose their financial situation; also, to centralize power, some do not like to share power with managers other than their family members (for example, unwilling to establish independent directors). These situations can bring upon corporate government a negative influence. For them it is convenient for family members to control management as a function of ownership. However, such situations obstruct the ideal implementation of corporate governance (Li, 2004; Yuang, 2004).

An empirical study (Wu and Cheng, 2005) recently ranked factors that large enterprises, as well as SMEs, consider critical to effective corporate governance. They are:

- Corporate policy should be free of interference from major stakeholders in the family.
- Ownership and management of the company should be specifically divided.
- Independent directors should be employed on the board of directors.

These three factors may indeed be critical to corporate governance, but they are also difficult to implement in Taiwan. The reason being that family management impedes the promotion of corporate governance in Taiwan. Perhaps a big reason for this is that family members are in control of management and ownership.

This type of family management controlling the rights of ownership, decision-making and succession in the company is not unique to the Chinese-speaking world. Similar arrangements also exist, of course, in the Western world. Many Western scholars (Deniz and Suarez, 2005; Handler, 1989; Howatson, 2003) point out the need to emphasize social responsibility and ethical considerations to prevent such problems. Though this type of family business in the Western world is not redolent with the serious problems that dog them in Eastern countries, globally speaking, such family management is a major issue for Western businesses that are trying to manage and improve ethical performance.

Some eastern scholars find that family management could be too centralized with too much nepotism within its paternalism. This also fragmentizes the family and impedes the internalization or development of the business (Wah, 2001; Yeung, 2000; Yu, 2001). Another study further indicates that in eastern Asian areas such as Taiwan, Singapore, and Hong Kong some problems result from family management. Banks cannot externally enforce their supervisory power on family businesses; even governmental regulations for family businesses are usually void as business shareholding is centralized within a family that controls all the managerial decision-making (Huang, 1997; Liu, 2002).

However, some case studies indicate that family management methods are gradually being adjusted. Some family businesses are emphasizing empowerment, employing professional managers in high-ranking positions, richly structuring the organization (such as establishing systems) and gradually giving non-family members an opportunity to invest and become major shareholders in the business (releasing some ownership) so as to accommodate business exploration and globalization (Wu, 2005). Some western scholars also indicate that the color of family business is fading and the orientation of professional management is taking its place. This can be found in family businesses that are employing professional managers who are non-family members (Leenders and Waarts, 2003).

Therefore, if family businesses can maintain excellent member loyalty in making corporate management efficient and simultaneously adjust the aforementioned managerial defects to accommodate environmental transition, then the excellent qualities of family management can be shown forth. The embodiment of adjusting family management to emphasize more on ethical considerations in business is, therefore, one of the purposes of this study.

The relationship between corporate governance and organizational performance

Wu and Cheng's empirical study (2005) further demonstrates that corporate governance and organizational performance in Taiwanese SMEs are significantly related. The study indicates the higher the importance of the five dimensions in corporate governance, the higher the organizational performance will be. These five dimensions include:

- Enhancing the directorate function
- Protecting the rights of stakeholders, such as employees
- Enhancing information transparency
- Protecting shareholders' rights
- Elaborating the supervisor's function

In addition, many other studies (Ho, 2003; Huong, 2004; Lin, 2003) also demonstrate that improving the directorate's structure and making the ownership structure and investors' rights transparent are positively related to organizational performance.

Organizational performance, of course, does not merely indicate financial performance; but also includes such elements as return, profits and social performance, viz. business image and ability to obtain external resources (Schwepker et al., 1997). Additionally, managerial efficiency (such as administrative efficiency in the business) is also a critical index for measuring organizational performance. Considering corporate governance essential in obtaining public trust, promoting corporate image and externally supervising and examining the administrative process of the organization is the main reason for having social performance and managerial efficiency as measures of organizational performance in the study. Selecting these aspects of managerial efficiency therefore becomes the measurement of the research topic and the reference for designing questionnaire items.

A tentative framework and hypotheses

The conclusion reached after consulting literatures mentioned above and applying in-depth interviews with three selected case companies is that there are several important variables in this study, and the author further develops a tentative framework to understand them in Figure 1.

There are four main variables in the figure, namely:

- Ethical considerations of corporate governance
- Corporate governance practices
- Family management
- Organizational performance.

According to the various literature consulted, it appears that *ethical leadership* and the *creative mechanism* are critical factors for the *ethical considerations of corporate* variable. Furthermore, according to the practical in-depth interview of participants, *supervision and balancing* (to prevent the directorate and managers from abusing their power), *legitimacy* (for businesses to follow governmental regulations) and *capital gathering* (to obtain capital by corporate governance) are ethically involved and intrinsic to the ethical considerations in practicing corporate governance. As one variable of ethical consideration, supervision and balancing possibly influences the outcome of corporate governance practices and additionally impacts organizational performance. This is also one of the main hypotheses in this study.

Hypothesis 1-1

> *The Legitimacy (subscale) of Ethical Considerations of Corporate Governance can directly influence Corporate Governance_Practices.*

Hypothesis 1-2

> *The Supervision and Balancing (subscale) of Ethical Considerations of Corporate Governance can directly influence Corporate Governance Practices.*

Hypothesis 1-3

> *The Capital Gathering (subscale) of Ethical Considerations of Corporate Governance can directly influence Corporate Governance Practices.*

Hypothesis 1-4

> *The Creative Mechanism (subscale) of Ethical Considerations of Corporate Governance can directly influence Corporate Governance_Practices.*

Hypothesis 1-5

> *The Ethical Leadership (subscale) of Ethical Considerations of Corporate Governance can directly influence Corporate Governance Practices.*

Hypothesis 1-6

> *Corporate Governance Practices can directly influence Organizational Performance.*

Noticeably, the aforementioned theories have demonstrated that the variable of family management could be a significant influence in executing corporate governance. Owing to the in-depth interviews with the three case companies, it seems that where family management prevails (where the family seeks to extend control, management and succession rights of the company), the efficiency of the family in executing corporate governance weakens.

As a result, this study assumes that family management can significantly influence corporate governance practices and organizational performance. Therefore, family management can be seen as a mediated variable of ethical considerations of corporate governance and organizational performance. This too is an important hypothesis of the study; one which will be further tested by the following:

Hypothesis 2-1

> *The Legitimacy (subscale) of Ethical Considerations of Corporate Governance can directly influence Family Management.*

Hypothesis 2-2

> *The Supervision and Balancing (subscale) of Ethical Considerations of Corporate Governance can directly influence Family Management.*

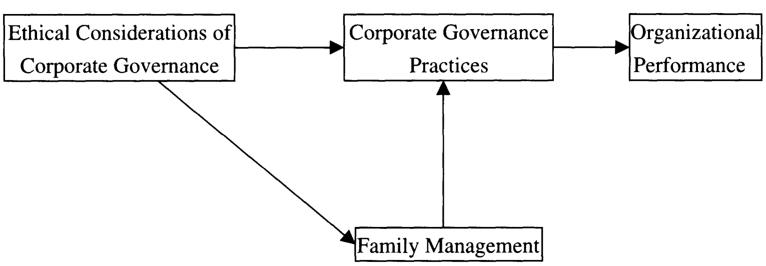

Figure 1. A tentative framework of 'the ethical considerations in corporate governance'.

Hypothesis 2-3

The Capital Gathering (subscale) of Ethical Considerations of Corporate Governance can directly influence Family Management.

Hypothesis 2-4

The Creative Mechanism (subscale) of Ethical Considerations of Corporate Governance can directly influence Family Management.

Hypothesis 2-5

The Ethical Leadership (subscale) of Ethical Considerations of Corporate Governance can directly influence Family Management.

Hypothesis 2-6

Family Management can directly influence Corporate Governance Practices.

Hypothesis 2-7

Family Management can directly influence Organizational Performance.

Methodology

Sampling

The author selected some 1000 listed and OTC companies in Taiwan as population samples; then randomly sampled 500 companies as research samples to which the author delivered copies of a questionnaire. The author had a response-rate of 161 copies of the completed questionnaire, or a 32.2% return.

The multivariate analysis software of Statistical Package for Social Science (SPSS) and the Analysis of Moment Structures (AMOS) analysis software are the analytic tools applied in this study.

After analyzing the data from 161 listed and OTC companies, it was found that the staff members and middle-/high-level administrators made up some 99.4% of the total interviewees, indicating that most interviewees were business managers. Consequently, these interviewees were expected to generally comprehend the issues of corporate governance. Approximately, 74.5% of the interviewed businesses were companies with a trading history extending for less than 30 years. On the same criteria, 32.9% (or 53) of the SMEs and 67.1% (108) of the large enterprises had traded for less than three decades. Nearly, 64.4% were traditional manufactures and 16.8% were service industries – proportions that closely reflect the standard distribution of those sectors in Taiwan, conforming to what is termed *the principle of sample realization.* Namely, among some 1000 listed and OTC companies in Taiwan, large enterprises comprise 70% and SMEs 30%. With regard to industry, the manufacturing industry makes up 70% of the businesses and the service industry 30% (Taiwan Securities and Futures Supervisory Commission, 2005). The ratio of business scale and industry is quite similar to the sampling ratio in the study.

Limited joint-stock companies made up 98.1% of the sample. In Taiwan, such companies typically have major shareholders from a single family who own most of the stock in the company, though minor shareholders still invest. This study's sample, therefore, is representative of a typical Taiwanese exposure to both corporate governance and family management.

Measurements and the operational definition of each factor

The questionnaire items in this study resulted from the consultation of relevant literature and the application of in-depth interviewing. The validity and reliability of questionnaire items are both presented in Appendix 1.

First, the variable *ethical considerations of corporate governance* include five dimensional factors – a total of 16 items. Those five factors (subscales) are legitimacy, supervision and balancing, capital gathering, creative mechanism, and ethical leadership.

Legitimacy refers to a business's ability to observe the best practices of *corporate governance. Supervision and balancing* means that a company has checks and balances to help it avoid fraud. *Capital gathering* means that a business obtains the trust of investors while it gathers funds.

These three factors resulted from the in-depth interviews conducted with the three companies examined in the case studies. The *creative mechanism* and *ethical leadership* factors are in the *ethical considerations* field as mentioned in the theoretical background. *Creative mechanism* involves the mechanics to execute corporate governance. *Ethical leadership* refers to the ethical recognition by high-level business managers.

Secondly, with respect to corporate governance practices, the author applied five major principles of corporate governance defined by the world-famous Organization for Economic Cooperation and Development (OECD) to design the questionnaire items in this part. These five principles include:

- To protect shareholders equally
- To protect the rights of stakeholders
- To protect the rights of shareholders
- To enhance information transparency
- To enhance the function of the board of directors.

Observing these five principles, the author designed two questions for each principle, generating a total of 10 questionnaire items.

Third, there are four items with respect to *family management*. They serve to measure the samples' controlling level of ownership, their decision-making and their succession.

Fourth, with respect to *organizational performance*, there are four items that measure the samples' managerial efficiency, operating cost, social image and the ability to obtain outside resources.

Some of these standards of performance estimations come from in-depth interviewing and some from other empirical studies (Chen, 2003; Lu, 2003).

Reliability analysis

In the analysis, the alpha value of the study lies between 0.7 and 0.85, indicating that each factor of the variables in this study is highly reliable. See Table I.

Validity analysis

The factor loading of each dimension in respect to the validity of the study is as follows:

- The factor loading of each dimension in the *ethical considerations of corporate governance* is higher than 0.7.
- Each factor in *corporate governance practices* falls approximately between 0.6 and 0.7.
- Each factor in *family management* is about 0.9.
- Each factor in *organizational performance* is higher than 0.7.

These statistics indicate that the validity of the questionnaire items of each dimension is quite high (Please see Appendix 1).

Model test

The author applied the statistics software AMOS here to measure the fit index employing the *observing measure model* and Path Analysis. The three types of indicators of model measures include: absolute fit measures, incremental fit measures and the so-called parsimonious fit measures (Huang, 2000) as follows. See Table II.

With respect to the three types of fit measures in Table II, the author found that the fit indexes are generally good and indicate that the *observing measure model* of the study is quite stable and reliable. In other words, the author believes that the model can be applied to explain the theoretical base.

Amos path analysis

Figure 2 indicates the simultaneous path analysis of each dimension using AMOS software.

TABLE I

The table of reliability analysis

Variable *Ethical considerations of corporate governance*	Cronbach's alpha value
Legitimacy	0.745
Supervision and balancing	0.789
Capital gathering	0.699
Creative mechanism	0.856
Ethical leadership	0.797
Corporate governance practices	0.895
Family management	0.871
Organizational performance	0.832

According to the path analysis in Figure 2, the five main linear relationships are as follows:

- The *supervision and balancing* factor in the *ethical considerations of corporate governance* dimension positively relates to the *corporate governance practices* dimension (0.25*).
- The *corporate governance practices* dimension positively relates to the *organizational performance* dimension (0.56***).
- The *creative mechanism* factor in the *ethical considerations of corporate governance* dimension negatively relates the *family management* dimension (−0.21*).
- The *ethical leadership* factor in the *ethical considerations of corporate governance* dimension positively relates to the *family management* dimension (0.25*).
- The *family management* dimension positively relates to the *corporate governance practices* dimension (0.18**).

The first aforementioned linear relation appears that supervision and balancing can directly influence corporate practices and proves Hypothesis 1-2 is sustained, but Hypotheses 1-1, 1-3, 1-4 and 1-5 are not supported. The second linear relation proves that corporate governance practices can directly influence organizational performance and accordingly sustains Hypothesis 1-6. The third linear relation appears that creative mechanism can directly influence family management; Hypothesis 2-4 is therefore sustained. The fourth linear relation appears that ethical leadership can directly influence family management; Hypothesis 2-5 is also sustained. Yet, Hypotheses 2-1, 2-2 and 2–3 are not supported. Lastly, according to the fifth linear relation, it appears that family management can directly influence corporate governance practices and accordingly sustains Hypothesis 2-6. However, family management does not directly influence organizational performance and therefore does not sustain Hypothesis 2-7.

The implications for management of the five linear relations will be discussed later in the Conclusion section.

Conclusions and suggestions

The following are four important conclusions.

First, the results of the path analysis in Figure 2 shows the *supervision and balancing* factor in the *ethical considerations of corporate governance* will act upon *corporate governance practices* (0.25*). Additionally, *corporate governance practices* also influence *organizational performance* (0.56**). With respect to managerial

TABLE II

The fit measures of *observing measure model*

Indicators of AMOS	Measures in this study	Index reached
Absolute fit measures		
χ^2 value not reaching significant standard below 0.05? Chio (2003)	p-Value = 0.117	Yes
GFI index above 0.9? Hu and Bentler (1999)	Index = 0.988	Yes
RMR index below 0.05? Hu and Bentler (1999)	Index = 0.041	Yes
RMSEA index below 0.08? McDonald and Ho (2002)	Index = 0.064	Yes
Incremental fit measures		
AGFI index above 0.9? Hu and Bentler (1999)	Index = 0.917	Yes
CFI index above 0.95? Bentler (1995)	Index = 0.993	Yes
NFI index above 0.9? Hu and Bentler (1999)	Index = 0.986	Yes
IFI index above 0.9? Hu and Bentler (1999)	Index = 0.994	Yes
Parsimonious fit measures		
χ^2/ d. f. between 1.0 and 3.0? Carmines and McIver (1981)	Index = 1.763	Yes

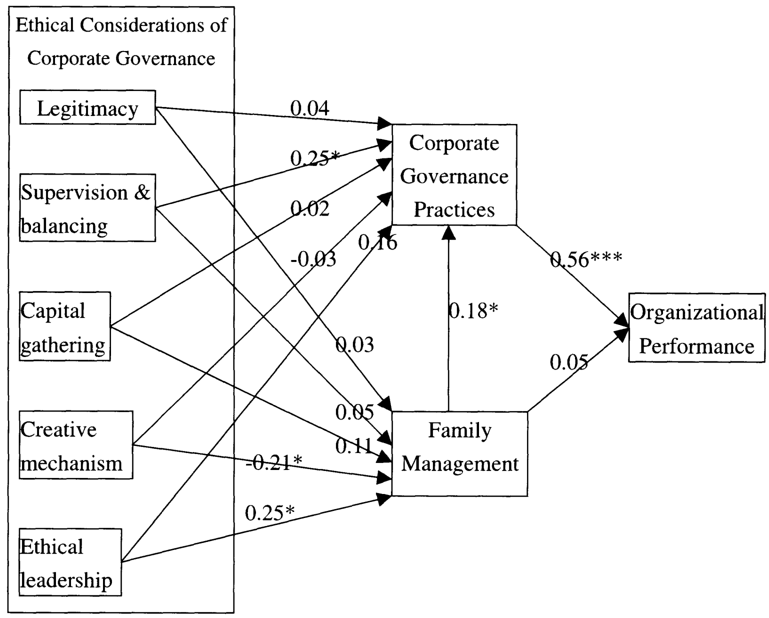

Figure 2. The path coefficient of *observing measure model* analyzed by AMOS. Note: $^{*}p < 0.05$; $^{**}p < 0.01$; $^{***}p < 0.001$.

implications, this indicates that though ethical considerations cannot directly influence organizational performance, a higher level of ethical considerations (such as supervision and balancing) can lead to more effective implementation of corporate governance. A business can further promote corporate performance as it more thoroughly executes corporate governance.

Secondly, the two factors (viz., legitimacy and capital gathering) in the *ethical considerations of corporate governance* dimension are not linearly related to *corporate governance practices* and *organizational performance*. This implies that, even though the government tries to regulate and force businesses to execute corporate governance, it is not commonly considered effective by participant-listed and OTC companies. For example, with reference to the establishment of independent directors on boards of directors, it is easy for a business to find a person who is willing to cooperate with the business and yet be inattentive to its supervision – simply to temporarily meet governmental regulations. The non-linear relation in capital gathering demonstrates that when obtaining capital in the capital market various complexities and uncertainties currently exist in the stock market in Taiwan. The risks are too high and impede the expectation of the participants in capital gathering.

Thirdly, the path analysis in Figure 2 also indicates that *creative mechanism* and *ethical leadership* in *the ethical considerations of corporate governance* have a direct influence on *family management* (-0.21^{*} and 0.25^{*}), *family management* has a direct influence on *corporate governance practices* (0.18^{*}) and *corporate governance practices* has a direct influence on *organizational performance* (0.56^{**}). However, *family management* cannot directly influence *organizational performance*. Generally speaking, the mutual relationships of the aforementioned variables mean that *the ethical considerations of corporate governance* can act upon *organizational performance* after going through the mediated variables of *family management* and *corporate governance practices*. *Family management*, consequently, becomes one of the mediated variables whilst *the ethical considerations of corporate governance* influences *organizational performance*.

The major managerial implication of *family management* playing the role of the mediated variable lies in that family management has an important influence on the implementation of corporate governance. The results of the study show that the key to cutting down on traditional defects (such as centralization and undemocracy) lies in the creative mechanism and ethical leadership factors in the ethical considerations of corporate governance. The details are illuminated in the fourth conclusion.

Fourthly, another major finding in the study is that the linear relationship between creative mechanism and the mediated variable family management is negative (−0.21*). This negative relationship indicates that a company with *creative mechanism* owns even more creative mechanics due to the multiple opinions of employees. The family in control of the business has not restrained and manipulated these employees. Naturally, there is a negative influence from family management. This situation is identical to that in Taiwan. Most family businesses in Taiwan usually reject various opinions of the employees because of centralization. This is not beneficial for the long-term development of business. Therefore, for the good of their businesses, managers and owners of family businesses need to adjust their ways of management, managerially speaking. The opinions of Leenders and Waarts (2003) concur with this study.

Another finding is the positive relationship between ethical leadership and family management (0.25*). This positive relationship indicates that in a company with a higher degree of ethical leadership, family management comes easy because the degree of employee is obedience is higher and the positive efficiency of family management is easily developed. This is the advantage of family management. Taiwan is no exception (Lee, 1996; Uhlaner, 2005; Yu, 2001).

Therefore, simultaneously including the factors of ethical leadership and creative mechanism is a good tool to develop positive efficiency for family management. This is the reason why the author emphasizes the importance of ethical considerations early on. Fully developing these two measures can enforce business ethics, implement corporate governance and be a beneficial basis in the long-term development of businesses.

The aforementioned results of this empirical study demonstrate the causal relationships amongst the ethical considerations of corporate governance, family management, corporate governance practices and organizational performance. Therefore, the tentative framework in Figure 1 is sustained. It also formally becomes the "Operational Model of the Ethical Considerations of Corporate Governance" for business consultation.

Lastly, with respect to its limitations, the sampling of this study is limited to 161 listed and OTC companies (only about 16% of all listed and OTC companies) in Taiwan. The samples, unfortunately, are not large enough. The questions within the questionnaire are not able to cover all issues of this complex field of corporate governance. The results of this work have their shortcomings, yet the solution to these problems will be a goal of future study.

APPENDIX 1

Validity analysis of each dimension and contents of questionnaire items

Factor	Item contents	Factor loading	Eigen value	Accumulated I.V. (%)
Ethical considerations of corporate governance				
	Q: What is your company's reason to practice corporate governance? (Very disagreeable, not agreeable, partially agreeable, agreeable, very agreeable)			
Legitimacy	To ensure corporate operations comply with corporate law or securities law	0.847	1.998	66.615
	To ensure the behavior of corporate managers complies with relevant regulations	0.882		
	To promote the business image	0.710		
Supervision and balancing	To ensure the corporate goal serves shareholder interests	0.808	2.117	70.571
	To supervise internal corporate matters and avoid illegality	0.876		
	To prevent the directorate and managers from abuse	0.835		
Capital gathering	To make corporate information transparent in order to enhance investor trust	0.746	1.910	63.682
	To strengthen corporate finance to bolster creditor trust	0.897		
	To increase resources in respect of capital or to lower costs in capital gathering	0.741		
Creative mechanism	To promote managerial efficiency within the corporation	0.880	2.334	77.792
	To assist the corporation in developing a sound managerial direction and strategy	0.899		
	To introduce systems for professional managers and management	0.866		
Ethical leadership	To enhance manager recognition of a need for self-examination and self-discipline to loyally devote themselves to the corporation	0.803	2.504	62.598
	To ensure most stakeholders throw their weight behind corporate management	0.745		
	To protect the rights of investors, employees and other stakeholders	0.836		
	To obtain the trust of the society and the public at large	0.778		
Corporate governance practices				
	Q: What is your company's degree in practicing corporate governance? (Nothing, a little, something, most of it, everything)			
	Corporate shareholders will be informed about shareholder meeting information such as dates, locations and minutes (records)	0.675	5.294	52.940

APPENDIX 1
Continued

Factor	Item contents	Factor loading	Eigen value	Accumulated I.V. (%)
	Shareholders can question, make proposals to or direct requests to the board of directors in the shareholder meeting (AGM)	0.739		
	Investors' relative rights will not be alternatively changed after investment unless the shareholder meeting agrees	0.782		
	Personnel (directors, managers and major shareholders) will not abuse internal information on the stock market (insider trading)	0.743		
	The corporation will protect the legal rights of each stakeholder and avoid deliberate neglect	0.782		
	Channels of complaint and/or redress are available for stakeholders, such as shareholders, creditors, employees, in unfair situations	0.779		
	The corporate properly declares information for employees, creditors, suppliers, local government and community inhabitants	0.784		
	The corporate properly informs its shareholders and stakeholders of potential or predictable risks	0.772		
	The board of directors establishes and supervises managerial strategies within the corporation in 'join-in' management	0.652		
	The members of the directorate comprise people who are not management and not family members either	0.525		
Family management				
	What's your company's motivation to practice corporate governance? (Very disagreeable, disagreeable, partially agreeable, agreeable, very agreeable)			
	For family members to control the ownership of the company	0.925	2.995	74.884
	For family members to control the management of the company	0.942		
	For family descendents to inherit the ownership or management of the company in the future	0.917		
	For making the managerial ideal and style of the corporate inaugurator strongly influence the high-level managerial team	0.643		

APPENDIX 1
Continued

Factor	Item contents	Factor loading	Eigen value	Accumulated I.V. (%)
Organizational performance				
	Q: How do you feel about your company? (Very dissatisfied, dissatisfied, so-so, satisfied, very satisfied)			
	The professional and leadership efficiency of the managerial level in the corporation	0.864	2.672	66.788
	The efficiency of internal management and operational cost lowering	0.805		
	The corporate public praise and image for consumers and the social public	0.805		
	The corporate ability to gather external resources (such as investment, creditor's support etc.)	0.794		

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