

## INTERNAL CONTROL AND RISK MANAGEMENT IN THE MOROCCAN FAMILY BUSINESSES

Taki I., Habba B., Berrada el Azizi T.\*

**Abstract:** This research aims to study the importance given by family business managers to internal control and how the risks associated with these companies are tackled. After a literature review on the risks affecting family businesses, the opportunities given by a formalized internal control system for family business's sustainability are highlighted. Then, results were presented based on a qualitative study of twenty family businesses focusing on the relationship "risk-control". This exploratory approach allowed us to detect the existence of obstacles in the implementation of effective internal control in Moroccan family businesses. The role of manager's culture and values in the decision-making process was emphasized. Identification of these types of obstacles will help managers adopt rational risk management, including prevention, following-up, and treatment of risks, which avoid unnecessary monitoring efforts and unplanned controls.

**Key words:** Family business, Risks, Internal control, Risk management

DOI: 10.17512/pjms.2024.29.1.21

*Article history:*

*Received March 15, 2024; Revised April 27, 2024; Accepted May 09, 2024*

### Introduction

The Moroccan economy is characterized by a predominance of family capital. This family entrepreneurship is characterized by consequent flexibility, lasting relationships, and a certain dimension of the human factor, including a frequently present psychological side (Picone et al., 2021). Traditionally, although some family businesses seem to be managed efficiently intuitively (Bloemen-Bekx, Lambrechts and Van Gils, 2023), without recourse to management tools, the frequent absence of these tools would explain some cases of bankruptcies. With globalization, a minimum of analysis seems necessary in decision-making (Gillies and Smith, 2022) for any company aspiring to create, develop, and maintain a competitive advantage. Companies should equip themselves with governance tools to control risks. It is,

---

\* **Ilyass Taki**, Doctor in management science, Morocco;

✉ corresponding author: Taki.ilyass@gmail.com,

ORCID: 0000-0002-1222-1164

**Badr Habba**, Professor, Chair of Moroccan Family Businesses ESCA Ecole de Management, Morocco;

✉ email: bhabba@esca.ma,

ORCID: 0000-0002-9097-1702

**Taieb Berrada el Azizi**, Professor, Chair of Moroccan Family Businesses ESCA Ecole de Management, Morocco;

✉ email: tberrada@esca.ma,

ORCID: 0009-0006-6385-5278

therefore interesting to identify the importance of internal control among the tools implemented in this context. Several studies suggest that internal control has the intrinsic characteristics to play a significant role in governance. Big companies often favor the practices recommended in the literature, but controlling risks in small and medium-sized family businesses raises questions. However, SMEs play an essential role in the economy of many countries and constitute more than 99.7% of the Moroccan economic fabric (Quiddi and Habba, 2021). However, they are characterized by the lack of sufficient segregation of duties, which puts them at even greater risk. This is why it is necessary to increase the theoretical and empirical studies on this topic, which will lead to a better functioning of this type of business. Theories such as agency theory, stewardship theory, and rooting theory have been used to analyze the ownership and management relationship as well as the behavior of owner-managers and their impacts on risk management The family businesses. Recently, many studies have focused on implementing internal control in SMEs in developed countries. In this regard, we should note the possibility of adapting internal control systems to all companies, regardless of their size and country. Thus, our present exploratory research aims to prospect the internal control practices in the risk management of Moroccan family SMEs. It tends to answer two essential questions:

*Question 1: Can the Moroccan family SME practice control mechanisms control its risks, and what are their limits?*

*Question 2: Given the importance accorded by universal reference systems to internal control in identifying and controlling risks, what is the perception of managers of Moroccan family SMEs towards this control system?*

### **Literature Review**

The typical risk categories of the family business according to the literature: Risks related to applying instructions and guidelines are related to the company's strategic decisions. The ownership structure and the risks associated with the strategic orientations: The ownership structure is obviously related to the life of the family businesses. In general, it would influence strategic decision-making, choices, and behaviors (Pascucci et al., 2022). According to the agency theory, when managers own property, they pursue risky activities. And managerial decision-making aligns with the interests of owners (Taki et al., 2021). In some cases, rivalry can emerge as a strategic issue. For example, a cousin consortium may have a different vision of the company, especially regarding risk tolerance and the roles or responsibilities to be assumed. As the family grows and disperses, the correspondence between family and company values becomes increasingly challenging to ensure. Thus, the meetings of the boards of directors in these companies seem rather to be formal (Naldi et al., 2024). Real decisions are made elsewhere: through random encounters or meetings and private interactions between influential family actors. This is how we propose, in the following paragraph, to outline the influence of family control on specific cases of diversification strategies.

The ownership structure and the risks related to diversification strategies: According to Salloum et al. (2021), the strategic behavior of family companies is rather conservative. According to literature, family-owned businesses tend to diversify less, even if this implies greater business risk, and they explain this primarily by the existence of conservatism in the strategic behavior of family businesses, by the refusal of recourse to debt, and the fact that the directors of family businesses who think that taking risky activities could reduce their control. And may create the need for new directors with new expertise.

On the other hand, Amihud and Lev (1999) tried to explain the relationship between ownership structure and level of diversification according to agency theory (Rashid Khan et al., 2020). They concluded that the problem is the risk sharing between the principal and the agent when they have different conceptions of risks. This difference could cause agency conflicts. This form of decision-making gives way to the intuition of the manager while making the investment or non-investment decision.

Ownership structure and risks associated with investment projects: The control of owners influences the family businesses. External owners (generally in the minority) would favor even risky investment projects (Molina-García et al., 2020) because they benefit from appreciating shareholder value alone. They would be indifferent to the level of risk inherent in any particular investment undertaken by the company because they can manage this risk by diversifying their portfolios. Conversely, the owners controlling the business think in terms of utility and are prepared to bear risks in line with their preferences. These objectives include not only financial and non-financial benefits but also the ability to exercise authority and the choice of investments.

Risks related to the functioning of internal processes and the safeguarding of assets: This type of risk is the most present risk in family businesses (Beck and Prügl, 2018). The source of these risks is related to the three points present in this category of companies: the family, management, and ownership.

#### ***Risks related to family dynamics***

Many theoretical and empirical studies point out that the differences and conflicts within the family can lead to behaviors that are not in the best interests of the company. If the interests of the first generation converge, divergences are notable for the next generations, as indicated by (Astrachan et al., 2003).

Moreover, due to a lack of preparation or even an absence of succession plans, succession periods are often when family ties are weak, and the degree of mutual trust decreases (Taki et al., 2021). In this sense, Sorenson and Milbrandt (2023) emphasized the importance of Family social capital (FSC), which refers to social relationships of goodwill and trust within business-owning families. Obviously, it is difficult for members of future generations to trust other family members the same way they trusted their parents.

Risks related to the presence or failure of the family unit: The family unit is considered a collective capital, an aggregation of financial heritage, strategic wealth, and shared values to which each member adheres. The family is characterized by the

possession of a collective personality exercised by the head of the family. Many researchers highlight the role of grandparents, who must be the pivotal generation ensuring the bond of solidarity within the family between parents, their children, and their grandparents.

Fundamental business decisions are supported by a collective goal of preserving family unity. However, when family unity is reached, it can lead to strong family control over the business.

The risks of conflicts: Some types of conflict can be beneficial when they result in compromises and agreements, but others can have a negative impact on business performance. Among the differences weighing on the company's management are the risks related to the interactions between control and ownership of the family business.

Conflicts related to family control Can arise especially when the rules are not established or well followed, and family ties often worsen the problem. Hirigoyen (2009) confirms that family businesses face conflicts related to family problems. In fact, it is common for the family controlling the company to have conflicts of varying intensity. They either involve family members of the same or different generations or pit family members against outside employees (Rogers et al., 2023). The dispersion of ownership within family businesses leads to a divergence of interests between family members who run the business, often with majority ownership and other owner-members (Schulze et al., 2003).

Agency Conflict: The separation between ownership and management is a source of agency conflict depending on the divergence between the officers' and shareholders' objectives and interests. Information asymmetry has a role in this area. Type I agency conflicts are related to the separation between ownership and management. The type II agency conflict is apparent between family shareholders, which leads to an expropriation of minority shareholders. This maximizes the wealth of majority family shareholders to the detriment of non-family minority shareholders.

Risks related to behavioral biases: Bias a systematic deviation of logical and rational thinking from reality. Thus, cognitive bias is a distortion in the cognitive processing of information. By mobilizing the work on emotional and cognitive biases in the context of behavioral governance, we strive to understand their strategic role in the family business. Both cognitive and emotional biases, individual and collective (Taki et al., 2021), generate additional agency costs and increase the risk inherent in the family business, which can lead to its demise. The study will start with management-related biases in relation to sustainability.

The owner-manager between personal and organizational sustainability and risks related to succession: The desire to perpetuate the business and the family unit brings out a significant objective absent in other forms of business: succession-transmission. The managing shareholder of the family business then finds himself in a dialogical tension between two poles that are often difficult to reconcile: personal and organizational sustainability. Agency conflicts in these companies are associated with entrenchment (Purkayastha et al.,2022). Rootedness is a way for the leader to

increase his discretionary space. Through this process, he increases his negotiating power. Several factors may be behind this behavior. According to literature, rootedness allows the leader to free himself from the tutelage of his board of directors or even of his shareholders. According to Shleifer and Vishny (1989), the execution by the manager of specific investments makes its replacement expensive. The main risks for the succession of the family business come from the lack of communication from the head of the household, the lack of planning, and the unclear roles of family members in the business. As a result, only a few of these companies manage to pass the multi-generation milestone.

**Nepotism biases:** Family nepotism is recognized as a tendency to hire or favor friends or family members in the business solely because of blood or established ties with such people. Among its implications, nepotism lowers employee morale and hampers operations, especially if those hired seek a position without fulfilling their responsibilities. This act, justified or not, can cause employees to work less.

**Altruism biases:** While for Schulze et al. (2003), altruism is a recognized practice between parents and their children, other authors show that altruism also emerges in other types of family relationships, such as fraternal bonds. This can be the source of several dysfunctions (Tajer et al., 2020). The altruism of the family leader has other drawbacks. It can encourage family members to withhold information and thus create agency problems. The source of inefficiency is the fact that the receiver often wastes the donation as fast as possible to receive more resources. Many authors call this behavior the "whiners" behavior.

**Risks attributed to the selection of managers:** The family business is faced with various challenges in selecting and managing the talents of its managers. While in some cases, the name of the successor is prominent and determined by the clauses of the company, it happens in other cases that several family members are all predisposed to succeed. Therein arises the problem of selection. In contrast, a study of family managers, succession shows that the motivation of the next generation to take over the family business has dropped to an all-time low. Thus, only 20% of all students from entrepreneurial families seem ready to take over the business. As a result, the needs of managers outside the family are of enormous importance, especially when no family member is suitable for these assignments and special knowledge is required.

**Risks related to the reliability of financial information and compliance with laws and regulations:**

The authors take up the agency relationship, as agency theory defines it, "contract by which a principal (principal) engages an agent (agent) to make decisions in his name and to act on his behalf." Agency theory attempts to explain problems with the transparency of financial information as soon as there is an agency relationship.

**Transparency of financial information:** The financial information published by the company is essential; it reflects the company's image, and it is on its basis that one can pass judgment on its governance and profitability. Financial disclosure can be defined as "any deliberate communication of financial, quantitative or qualitative,

mandatory or voluntary information conveyed through formal or informal media (Alshiban and Al-Adeem, 2022). The literature confirms that family businesses are characterized by information asymmetry.

Family control and the risks of altering financial information: On the one hand, family control over the board of directors reduces the effectiveness of independent directors in controlling the quality of financial information (Nindiasari, 2021). On the other hand, boards dominated by family members, instead of monitoring the actions of managers and guaranteeing the interests of minority shareholders, try to maximize the interests of the family. Thus, family control increases the risk of expropriation of minority shareholders.

General characteristics of financial information: Information given to the public must meet several characteristics required by law. It must be accurate, complete, precise, sincere, relevant, and equally accessible to all investors simultaneously to avoid creating an information asymmetry that would favor some investors to the detriment of others.

Risks related to the organization and accounting and financial information: The quality of the published financial information depends largely on the reliability and regularity of the transmission and the exhaustiveness of the information prepared in the “upstream processes” of accounting production and closing of the accounts. Therefore, controlling the risks that may affect these processes is important. Also, the quality of accounting and financial information depends on criteria that should be observed so that the information in the financial statements is regular and truthful.

The risk of non-compliance: Family businesses can be deeply rooted in communities, so reputational damage can be serious (Arregle et al., 2007). As a result, family businesses might be more likely to avoid seeking legal redress often and face various regulatory compliance issues relating to auditor qualification, auditor change, and filing late in the legal procedures because they are often indicators of financial difficulties. Thus, the very first criterion of the quality of financial statements is their compliance with the standards in force.

Risks in managing the family business results: The literature examines the differences between family businesses. “Family businesses cannot survive without financial success. At the same time, financial success is not the only goal most family businesses pursue”. Thus, the financial strategy pursued will generally be more cautious than in non-family businesses. Self-financing is the preferred financial resource.

The risk of misalignment between the interests of controlling shareholders and those of outside management may be apparent. The implementation of control measures cannot prevent managers from appropriating private benefits. This has a negative impact on the transparency and the quality of financial information. Concentration of ownership leads to a risk of entrenching the controlling shareholder. Non-alignment allows the manager to maximize his private benefits at the expense of shareholders or creditors. This discrepancy leads to a lower quality of financial information.

Questions of ethics and social responsibility (CSR): Notions of ethics and social responsibility were first defined as individual virtues, such as integrity, fairness, trust, respect and empathy (de Groote and Bertschi-Michel, 2021). The question was to measure whether the company as an organization was virtuous, whether by applying to the company the virtues attributed to the individual and or by linking the virtue of the company to the satisfaction of the parties stakeholders. More recent developments have instead defined CSR as the capacity of the company to have satisfactory relations with all its stakeholders.

Other works on the ethics of the family business underline that the strong bond between employees and leaders can turn into blind obedience and lead to excesses where the emotional bonds can favor harmony but also destructive hatred. Minority shareholders can be harmed by the shareholders-managers of the family business. In addition, there are multiple possibilities for tensions in the event of succession (Cadieux and Lorrain, 2002). As seen by agency theory, the family business is, therefore, far from being a place of social cohesion. The informal common values put forward in a company may not respect the laws in force.

***I-II- Internal control, an opportunity for the family business to control its risks***

As we presented, the development of the family business is limited by the multiplication of conflicts (Jamil et al., 2024). The various dysfunctions are the main source of conflicts. This affects the operation of the entire business. This is why the company should implement effective control systems to control potential risks and prevent abuses of all kinds. In this regard, internal control is of great importance for any organization to limit or even avoid the sources of risk by reducing information asymmetry, making it more reliable, establishing an optimal balance of powers, and channeling the behavior of actors.

Internal control is thus considered by COSO 2013 (international benchmark for internal control, risk management and fraud prevention) as "a process implemented by the board, management and employees and which is intended to provide reasonable assurance in order to achieve the objectives related to operations, reporting and compliance".

Several authors were interested in the process of setting up an internal control. Some suggest that the most important is the correct application of upstream decisions (Dachner et al.2021). In other words, "Make sure that employees who represent the company to the outside world act in the company's best interests. It makes it possible to verify that hierarchical, formal, and informal coordination functions correctly and ensures effective coordination between individuals. It ensures that the decisions made by the leaders are implemented by all the employees of the company".

It reduces the risk that an objective falling within one of these categories of objectives will not be achieved to an acceptable level. Five components are assigned to internal control. Effective internal control assumes that the five components are in place and functioning properly.

The control environment: The control environment is like a corporate code of conduct; it determines the level of staff awareness of the importance and

acceptance of controls. It is the basis for the effectiveness of the other components of internal control. In its role of controlling and supervising management, the board of directors must define the management style and the managerial posture of managers about risk.

**Risk assessment:** As already defined, risk is the probability that an event will arise and adversely impact the achievement of objectives, but it also can be seen as a missed opportunity. Any business faces many of these risks, both internal and external sources. Risk assessment requires a dynamic and iterative process of identifying and analyzing the risks.

**Control activities:** Control activities are summed up in monitoring the application of standards and procedures. If the procedures explain the steps in the operation of the activities, the standards should determine what needs to be done to reduce the risks. The control environment is still important in the organization of control activities since the management must implement internal control standards and procedures that are likely to reduce the risks that could compromise the company's operation and the achievement of its objectives.

**Information and Communication:** Control and communication of information requires systems built around control activities. The objective is to enable company members to produce, collect, and exchange quality information (in terms of availability, updating, accessibility, and accuracy) necessary for conducting, managing, and controlling operations.

**Steering Internal Control:** First, internal control must be appropriated by each functional or operational manager, who must lead it to set up and manage the risk control systems specific to his area of responsibility. Management must monitor all processes. Thus, amendments would be made on time in the event of significant malfunctions, allowing the system to react quickly to changing circumstances. In addition, internal control systems are continuously assessed by internal audits.

The five components of internal control that we presented play an important role in preventing, identifying, and controlling risks that negatively impact the achievement of the family business's objectives. Development, implementation, and monitoring are the responsibilities of all company stakeholders. Management, owners, family, and other stakeholders are involved in this case.

The prerequisites for the implementation of an internal control system

The organizational environment of the company

Establishing an internal control system requires a clear definition of responsibilities in the company and its relations with the family. It requires adequate financial resources and skills and relies on appropriate information systems, procedures, tools, and practices. To implement the internal control system, it is necessary to plan the activities and define the framework within which they are executed, monitored, and controlled. Clearly defined responsibilities and powers should be in harmony with the objectives pursued by the company. Information must be clearly communicated to all levels of the company.



Awareness by company managers: Management must be aware of the advantages provided by a good internal control system. Moreover, the control environment guides the other components of internal control in their operation. In the absence of such awareness, internal control could be overlooked, not valued by other stakeholders, and end up appearing to them as unnecessary. The desire to organize and control oneself must animate the personalities of both owners and family managers. Organizational and control procedures condition all decisions of the family business.

Sensitization of all stakeholders to internal control: Management must launch a real campaign to explain internal control's issues, objectives and expected results. To prevent any opposition, the family not active in the company's management must also be convinced of the benefits of this control, particularly through the family council. Everything must be understood and communicated to all company levels to facilitate the development and implementation of effective internal control systems. This literature review leads to some research questions:

How would a formalized internal control system impact the risks incurred by the unlisted family SME?

Three questions arise from this main question intended to guide our investigation into the framework of the problem posed.

*Question 1: To what extent does the unlisted family SME organize an internal control system?*

*Question 2: What would the role of the management of the unlisted family SME be in establishing a formalized internal control system?*

*Question 3: Would a formalized internal control system allow control of all types of risks (strategic, operational and compliance) of the family SME not listed?*

### **Research Methodology**

Through this research, we aspire to understand the relationship between control and risk management in family firms through a qualitative study of around 20 (SME) firms. Given the difficulty of reaching the managers of Moroccan family businesses, the sampling technique was convenience sampling. Given our independence from this field of research, we have borrowed the characteristics of the positivist paradigm.

Prior to the operationalization of the interviews, we contacted around forty family companies either by telephone or by email, depending on the availability of the contact details of the managers of the companies. An interview outline was sent to them or explained to them to help them understand the objective of the research. Around thirty of them expressed their agreement in principle. Twenty companies were chosen to have a large and diverse sample. For companies in the same sector, the authors opted for those who agreed to the most convenient appointment close.

**Table 1. Sample details**

<b>Sampling technique</b>	Convenience sampling  - The family business must be a Moroccan SME. - Presence of family members in control or management - Seniority of the family business, at least (5 years of activity)
<b>Sample details based on our literature review: Age / Number of Family SME</b>	Between [5 ] and [10] years: 4 Between [10 ] and [15] years: 4 Between [15 ] and [20] years:6 More than [20] years: 6
<b>Ownership Structure/ Number of Family SME</b>	One family has 100% of sharp arts: 14 Two families, 50% each: 5 One family 60% and 3 families 40 %: 1
<b>Activity area/ Number of Family SME</b>	Document printing and reproduction services: 3 Craftsmanship: 2 Construction: 6 Cheese shop: 1 Importation of dental surgery tools: 1 schooling (nursery, primary and secondary): 2 citrus export: 3 Textile export: 2

**Source:** Obtained from the study results

The researchers organized a qualitative background study. They conducted semi-structured interviews with managers of family businesses operating in Morocco, numbering twenty. The choice of semi-structured interviews is justified by its flexibility and the possibility of bringing interviewees to the main topic every time it starts to veer off course. Interviews are recorded and transcribed and have been subject to thematic content analysis. To this end, we have constructed interview guides in a reasoned manner in accordance with our research problem. As Reuchlin emphasizes, a scientific approach can only be an approach based on objectively established facts. We target a diversity of representativeness by approaching different respondent profiles. However, the Covid-19 pandemic has disrupted our investigative approach. Only four interviews were authorized face-to-face with masks while respecting the social distancing measures. They took one hour each. The remaining interviews could only be conducted remotely via video calls. Forty minutes each were sufficient to collect the necessary information from each interviewee. These interviews allowed us, among other things, to explore our field of research by analyzing these actors' representations, speeches, and practices. The interviews helped us reduce misunderstandings and uncover unforeseen events,

mainly the pandemic and its repercussions on the family business and the classic perception of control by the managers interviewed.

### **Research Results and Discussion**

As mentioned in the literature review, the risks that interest in studying are specific to the family business. Internal control is necessary to control them. The quality of internal control can be assessed through the conditions for implementing its systems within the company. Indeed, the establishment of an internal control system in a family business is a difficult task, but it is inevitable for any family business that wishes to survive and develop and face uncertainty. Thus, the responses of the managers surveyed do conceal the difficulty of establishing an effective internal control system.

It can be mentioned that most of the family businesses surveyed opted for SARL legal status. This undoubtedly allows them to have more accessible control and simplicity in proximity management. The study observed a concentration of ownership in the hands of one family in 14/20 of cases, or 70%, and two families in 5/20 of cases, or 25%. As a result, 95% of the companies surveyed are controlled by two families at most. Corporate governance is characterized by the intervention of relatives (father, mother or brothers). In principle, family bodies where family members are present, such as the Family Council, the Family Assembly and Family Charter, should be created to reduce rivalries and balance power. We have noted the total absence of these bodies, which are essential for regulating governance in the family. The most frequent risks mentioned by the respondents relate in part to their activities or are temporary (COVID-19 pandemic); some are mentioned and discussed during the planning phase of the activity, and others are not known until after their manifestation. This requires efforts to restore situations after each manifestation of risk. This management approach is harmful to the sustainability of these companies. Decision-making processes are not formalized and are based on the intuition of the manager and family leaders. The personality of the head of the family influences the management. The family grants him privileges in decision-making. This involvement of the family no doubt tends to ensure measured risk-taking, but it can simultaneously hamper the company's competitiveness. In addition, the leaders surveyed are all members of their families; therefore, Type I agency conflicts related to the separation between ownership and management are not apparent in this study. As a result, the need for managers outside the family did not matter in the sample. The rooting of the leader was first developed by Shleifer and Vishny in 1989. It is clearly present in this investigation, given that 15/20 of the respondents, or 75%, have a seniority exceeding 15 years. Family nepotism, recognized as behavioral bias, is insignificant since only 10% of companies have family staff, exceeding 30% of permanent staff. For the 90% who recruited less than 30% of family staff, the explanation can be traced to the difficult tasks related to the activities and the unwillingness of family members to perform them. This pushes these companies to call on workers from outside the family.

However, the recruitment process lacks objectivity even though 60% of companies use managers with experience required in their work. We note mainly the absence of recruitment committees or commissions allowing a rational personnel selection. As for altruism, also considered by Hirigoyen (2009) as a behavioral bias depending on the degree of symmetry between the family actors involved in the business, it is not observed, even if the funding sources are rather internal. 20% of companies rely on self-financing: 4/20 cases, and rarely from external sources for 80%. In terms of strategic decisions, the majority (60%) of companies are rather concerned about their fate after the effects of the pandemic. Only 40% of companies have planned medium-term projects, including formalizing procedures and promoting company performance. Litigation with third parties is virtually absent, as 90% of executives deny the existence of conflicts with these third parties. When it comes to access to information by rights holders, all leaders claim full transparency in information. However, family conflicts are expected in 60% of companies, and conflicts are mainly due to the drop in income during the current pandemic. Other conflicts seem latent, with 30% of companies claiming to make profit distribution decisions without their beneficiaries.

Rules exist in all these companies; however, their transmission to the staff has suffered from a failure since 12/20, or 60% of the sample communicate them by notice boards at the entrance, 6/20, or 30% by functional managers, and 4/20, or 20%, during meetings. Only 30% of these company's state that they distribute tasks among staff members according to specifications. There is, therefore, an absence of procedure manuals in all the companies surveyed. We can thus note the role that internal control can play in monitoring the rules of conduct and internal processes of the family business. In addition, the absence of a communications manager in these companies is striking. The reliability of financial information, in turn, suffers from weaknesses; 50% state that they have an accountant in the company who controls the accounting records; 30% say they control this service themselves, and only 20% have outsourced this control without mentioning the person or organization appointed (accounting firm or chartered accountant). Regarding the internal organization of the company, out of the 20 managers questioned, 12 managers (60%) replied that they did not have a board of directors (CA), and 40% declared that they had an established (CA) by the leader who also combines the function of head of the council. The relationship between the control and management bodies thus remains unclear since 7/20, or 35% of respondents, say they play both management and control functions, and 3/20, or 15%, declare the manager's assistance at meetings of the Board of Directors. The remaining 50% confirm the absence of (CA) as a controlling body and content themselves with sharing decisions with the staff concerned before they are carried out.

#### ***Study Results and Implication to Management***

The dysfunctions observed with these companies show the value of setting up an internal control system. We therefore first asked the family managers' perception of the control activity: 14/20, or 70%, are themselves responsible for control; 4/20, or

20%, have designated a person for this task, and only 10% state that they have a department dedicated to monitoring. As for the frequency of checks, 16/20 or 80% carry out daily checks. In 40% of cases, employees are the target of control. Financial activities with customers suppliers are targeted by 30% of respondents. Only 10% of companies say they control the overall operation of the business. Then, the last question asked to managers was about affirming their convictions about the opportunities of a formalized internal control system for their companies (Would the establishment of internal control not save you monitoring costs?)

The responses are striking and show that family values and culture are the most dominant aspects preventing the establishment of a formalized internal control system (11/20 or 55%). Indeed, it is essential to consider the socio-cultural and institutional context in which these family businesses are inserted. This environment affects the conception of the family and its influence on the family business (Leaptrott, 2005; Phan and Butler, 2008; Smith, 2008). The orientations and behaviors of leaders are influenced by personal and environmental factors. Researchers have shown the importance of the social status of entrepreneurial activities in the environment related to individuals (Begley et al., 1997; Schmitt-Rodermund, 2004). Each family is a unique social system "because it has passed through its own cultural, geographic and historical experiences" (Kets de Vries and al. 2007). However, to bypass this current of thought, which seems to hinder the modernization of these companies, these leaders are called upon to train in the management of the company to develop their know-how and convince the members of their families of the assets of the modern business.

The other obstacles are material and financial. While being aware of the value of internal control (9/20), 45% of managers are reluctant because of fear of paying dearly for money and energy. Indeed, setting up an internal control system is an ambitious, delicate, and expensive task, but inevitable. This may seem an ambitious task because it requires the mobilization of all internal stakeholders to develop and implement internal control systems. To be effective, the internal control system must adapt to its environment and the managers' strategies. This is a costly task because its development, implementation, and operation require intellectual, human, material, financial, and information resources. Despite all these constraints, the implementation of internal control is inevitable for the family business, especially since each company is free to set up internal control systems adapted to its structure. Internal control as an investment can only pay off. The efforts to be deployed bear fruit in the short, medium, or long term, depending on the state of the control environment and its involvement.

### **Conclusion**

As part of a systemic approach, the family business manager is inspired by a broad system related to his environment and culture, which makes a difference in the problems encountered (Pieper and Klein, 2007). As a result, the control mechanisms borrowed by family leaders, inspired by their values and culture, can be considered

to have almost failed or only partially succeeded in their mission of coordination, conflict resolution, and risk reduction. The risks related to the family are considered little or not at all by the managers interviewed. These classic control mechanisms are often disparate and do not accord with a comprehensive approach to corporate governance. Mistrust and doubt occur regarding these companies' accounting translation of financial realities. More interest should be shown vis a vis to reporting and annual work programme, which plays a vital role in the activities of companies Ginevičius (2024). Another cause of inefficient control mechanisms is the centralization of functions in small businesses and the overlapping functions of the chairman of the board and manager centralized by the same person. However, the ability to control risks depends not only on the control mechanisms put in place but also on the attitude of managers. In this regard, leaders must have a long-term vision. Control in the family business should not be seen from only a static perspective, which considers only the current ownership structure and its contractual and relational peculiarities, as we felt in the words of these family business leaders. We must also integrate the family dynamics as well as the evolution of the business and its environment. Thus, the control system should aim to reduce unnecessary surveillance costs borne by these SMEs.

In summary, the establishment of an effective internal control system presupposes that certain conditions are met: Managers of family SMEs with management background must be convinced that a good internal control system influences the circulation and reliability of information, coordination, protection of assets, improvement of processes, setting of procedures with all partners, both internal and external to the company positively. To this end, they must clearly define responsibilities, have the appropriate skills, and rely on appropriate information systems, procedures, tools, and practices. Effective control and management bodies must be set up in these SMEs. A real campaign must be launched to explain the issues, objectives, and expected results of internal control to all stakeholders (family, owners, staff and other stakeholders). Everything must be understood and shared at all company levels to facilitate the development and implementation of effective internal control systems. It is then that the family SME could have effective management and ensure its sustainability in an emerging economy.

## Reference

- Alshiban, R. F., Al-Adeem, K. R., (2022). Empirically investigating the disclosure of nonfinancial information: A content study on corporations listed in the Saudi capital market. *Journal of Risk and Financial Management*, 15(6), 251.
- Amihud, Y., Lev, B., (1999). Does corporate ownership structure affect its strategy towards diversification? *Strategic Management Journal*, 20(11), 1063-1069.

- Arregle, J. L., Hitt, M. A., Sirmon, D. G. and Very, P., (2007). The development of organizational social capital: Attributes of family firms. *Journal of Management Studies*, 44(1), 73-95.
- Astrachan, J. H., (2003). Commentary on the special issue: The emergence of a field. *Journal of Business Venturing*, 18(5), 567-572.
- Beck, S., Prügl, R., (2018). Family firm reputation and humanization: Consumers and the trust advantage of family firms under different conditions of brand familiarity. *Family Business Review*, 31(4), 460-482.
- Bloemen-Bekx, M., Lambrechts, F. and Van Gils, A., (2023). An exploration of the role of intuitive forms of planning in the succession process: the explanatory power of effectuation theory. *Journal of Family Business Management*, 13(2), 486-502.
- Cadieux, L., Lorrain, J. and Hugron, P., (2002). Succession in family businesses run by women: a problem in search of researchers. *Revue internationale SME*, 15(1), 115-130.
- COSO., (2013). the Committee of Sponsoring Organizations of the Treadway Commission (COSO II).
- Dachner, A. M., Ellingson, J. E., Noe, R. A. and Saxton, B. M., (2021). The future of employee development. *Human Resource Management Review*, 31(2), 3-16.
- de Groote, J. K., Bertschi-Michel, A., (2021). From intention to trust to behavioral trust: Trust building in family business advising. *Family Business Review*, 34(2), 132-153.
- Gillies, A., Smith, P., (2022). Can AI systems meet the ethical requirements of professional decision-making in health care? *AI and Ethics*, 2(1), 41-47
- Ginevičius, R., (2024). Evaluation of the technological structure of the work programme of construction companies. *Engineering Management in Production and Services*, 16(1), 104-111.
- Hirigoyen, G., (2009). Reconciling finance and management in family businesses. *French revue of management*, 8, 393-411.
- Jamil, M., Stephens, S. and Md Fadzil, A. F., (2024). Sustainability in family business settings: a strategic entrepreneurship perspective. *Journal of Family Business Management*, 2-19.
- Molina-García, A., Florido-Ruiz, B., Campos Valenzuela, M. and Diéguez-Soto, J. (2020). The effect of family ownership and generation on financial literacy. *Small Business International Review*, 4(1), 1-15.
- Naldi, L., Nordqvist, M., Chirico, F., Gómez-Mejía, L., Ashforth, B. E., Swartz, R. and Melin, L., (2024). From “FIBER” to “FIRE”: construct validation and refinement of the socioemotional wealth scale in family firms. *Entrepreneurship and Regional Development*, 1-36.
- Nindiasari, A. D., (2021). Good corporate governance practices and voluntary disclosure in companies listed in the Indonesia Sharia Stock Index. *Asian Journal of Islamic Management*, 45-55.
- Pascucci, F., Domenichelli, O., Peruffo, E. and Gregori, G. L., (2022). Family ownership and the export performance of SMEs: the moderating role of financial constraints and flexibility. *Journal of Small Business and Enterprise Development*, 29(4), 602-626.
- Picone, P. M., De Massis, A., Tang, Y. and Piccolo, R. F., (2021). The psychological foundations of management in family firms: Values, biases, and heuristics. *Family Business Review*, 34(1), 12-32.
- Pieper, T. M., Klein, S. B., (2007). The bulleye: A systems approach to modeling family firms. *Family Business Review*, 20(4), 301-319.

- Purkayastha, S., Veliyath, R. and George, R., (2022). Type I and type II agency conflicts in family firms: An empirical investigation. *Journal of Business Research*, 153, 285-299.
- Quiddi O., Habba B., (2023). Toward a sustainable future: CSR adoption by family SMES in the Moroccan context. *Polish Journal of Management Studies*, 28, 263-278.
- Rashid Khan, H. U., Khidmat, W. B., Hares, O. A., Muhammad, N. and Saleem, K., (2020). Corporate governance quality, ownership structure, agency costs and firm performance. Evidence from an emerging economy. *Journal of Risk and Financial Management*, 13(7), 154.
- Rogers, B. L., Vardaman, J. M. and Berry, P. M., (2023). Post-Succession Turnover in Family-Owned Businesses: A Theoretical Framework. *American Journal of Management*, 23(4), 01-15.
- Salloum, C., Digout, J., Salloum, L., Mercier-Suissa, C. and Chahine, P., (2021). Family business, strategic planning, and corporate entrepreneurship. *International Journal of Entrepreneurship and Innovation Management*, 25(1), 52-71.
- Schulze, W. S., Lubatkin, M. H. and Dino, R. N., (2003). Toward a theory of agency and altruism in family firms. *Journal of Business Venturing*, 18(4), 473-490.
- Shleifer, A., Vishny, R. W., (1989). Management entrenchment: The case of manager-specific investments. *Journal of Financial Economics*, 25(1), 123-139.
- Sorenson, R. L., Milbrandt, J. M., (2023). Family social capital in family business: A faith-based values theory. *Journal of Business Ethics*, 184(3), 701-724.
- Tajer, A., Araban, O., Essabar, H. and Rigat, S.M., (2022). The governance of the family business from the perspective of agency and stewardship theory. *Revue Control, Accounting, and Audit*, 6(2), 178-204
- Taki, I., Habba, B. and El Azizi, T. B., (2021). Global Mapping of Risks in Family Businesses. *International Journal of Business and Management*, 16(8), 122-136.

## **KONTROLA WEWNĘTRZNA I ZARZĄDZANIE RYZYKIEM W MAROKAŃSKICH FIRMACH RODZINNYCH**

**Streszczenie:** Celem badania jest zbadanie wagi, jaką menedżerowie firm rodzinnych przywiązują do kontroli wewnętrznej oraz sposobów radzenia sobie z ryzykiem związanym z tymi firmami. Po dokonaniu przeglądu literatury na temat zagrożeń wpływających na firmy rodzinne, podkreślono możliwości, jakie daje sformalizowany system kontroli wewnętrznej w zakresie zrównoważonego rozwoju firm rodzinnych. Następnie zaprezentowano wyniki na podstawie badania jakościowego dwudziestu firm rodzinnych skupiającego się na relacji „kontrola ryzyka”. To eksploracyjne podejście pozwoliło nam wykryć istnienie przeszkód we wdrażaniu skutecznej kontroli wewnętrznej w marokańskich firmach rodzinnych. Podkreślono rolę kultury i wartości menedżera w procesie decyzyjnym. Identyfikacja tego typu przeszkód pomoże menedżerom w przyjęciu racjonalnego zarządzania ryzykiem, w tym zapobieganiu, monitorowaniu i leczeniu ryzyk, co pozwoli uniknąć niepotrzebnego wysiłku w zakresie monitorowania i nieplanowanych kontroli.

**Słowa kluczowe:** Firma rodzinna, Ryzyka, Kontrola wewnętrzna, Zarządzanie ryzykiem