Family Business Governance

Learning materials for family businesses

Module no. 5

SUFABU

SUCCESSION IN FAMILY BUSINESSES

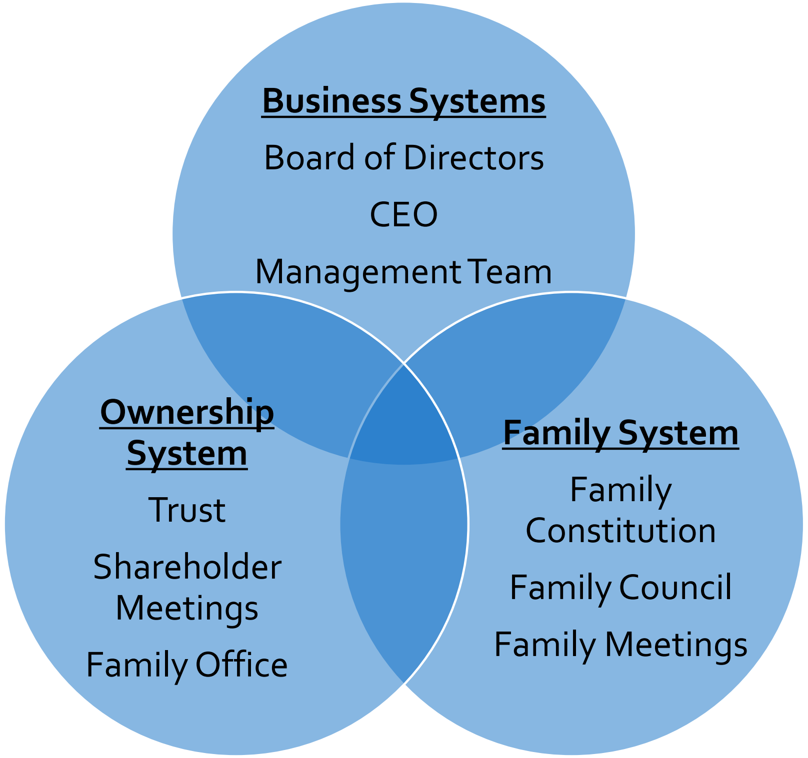
Erasmus+

In this module you will cover

- What is family business governance?
- What is corporate governance?
- Models of good family governance
- Formalisation of roles and responsibilities
- Case study

What is Family Business Governance?

- Family businesses can improve their odds of survival by getting the right governance structures in place, and by starting the educational process of the subsequent generations in this area as soon as possible.
- Governance structures of family firms relate to three spheres of influence: the family, ownership and business systems.



What is Corporate Governance?

- Corporate governance is a system of direction and control that dictates how a board of directors governs and oversees a company.
- Corporate governance includes the vital family business principles of transparency, accountability, and security.
- The effects of poor corporate governance can lead to a company failing to achieve its stated goals and can even lead to the collapse of the company and significant financial losses for shareholders.

Good Family Business Governance

Business Management

Family Management

Protocol: Commitment and Unity

Good Family Business Governance

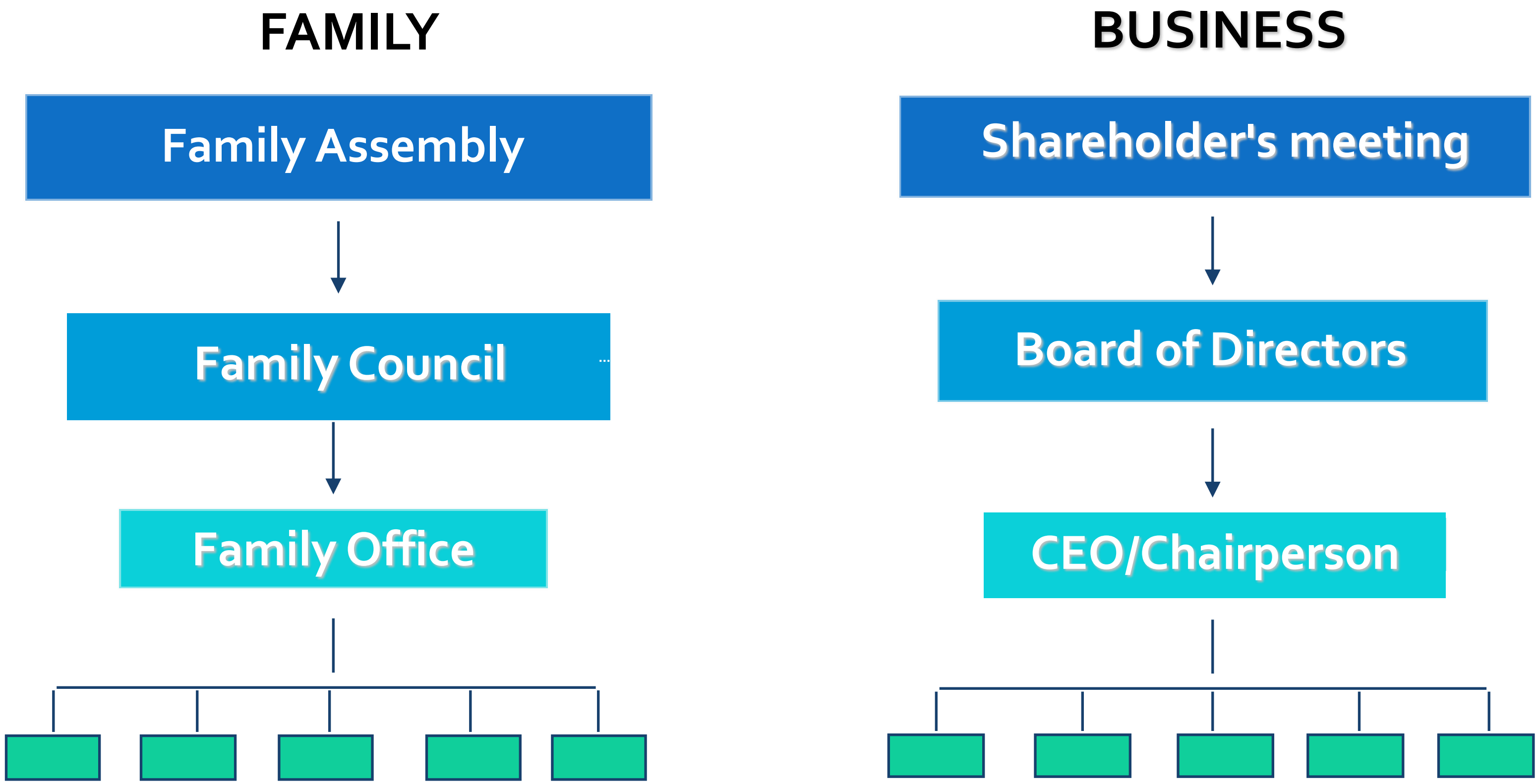
Corporate governance should be done more through principles than rules

Adi Godrej

Good Family Business Governance: Evolution

- **Very little company**: Advisor/s
- **Small company**: Advisory Council
- **Medium Company**: Board of Directors. From Information and advisory tasks, to supervision and control
- **Big Company**: Double systems: Board of Director/Family Council. Independent Advisors, absence of family in management (95%).

Models of Good Governance



Models of Good Governance

Successful businesses will establish appropriate governance structures of management and control within a company, covering the direction for business operations and strategy.

Both must work in tandem and both must be adapted to the situation of the family business.

The objective of creating effective governance helps family business achieve both economic and emotional value.

Definitions of the key roles and their responsibilities are listed in the following pages.

Models of Good Governance: 1. Family Assembly

The family assembly is an annual meeting that takes place to inform all family members about the company.

Often at this meeting, evolution and future plans for the company are discussed and young family members are initiated into the company.

Unity amongst family members is often discussed at these meetings, with an opportunity for all family members to express their ideas and proposals for the family council.

At the assembly family members are also informed about protocol.

Models of Good Governance: 2. Family Council

The family council is made up of delegates from the family assembly to work on specific issues.

The family council provides feedback on how the board's decisions impact the family, and then provide input on how to optimise these decisions.

The family council also facilitate the growth of the family values and goals within the business.

Without the input of the family council on these family values, the business may lose its way and not make sense.

Models of Good Governance:
3. Family Office

The family office is a dedicated solution for the complex management of the family wealth.

Whilst a family business is focused on the creation of wealth, the family office focuses on keeping wealth.

It is a vehicle that supports the family in the day-to-day administration and management of the family's affairs and long-term strategy.

Models of Good Governance: 4. Shareholders Meeting

The shareholders meeting in a family business takes place once a year.

As in public companies, it is an informative process.

In the meeting, there is often the chance to elect a board of directors.

In the meeting, there is also a chance to legitimise the spirit of the ownership

Models of Good Governance: 5. Board of Directors

The Board of Directors meet to define the strategy of the business, and work to coordinate it with the mission of the family.

In terms of management, the Board tend to hire and fire senior executives.

They act as a bridge between the shareholders and family council.

Models of Good Governance:
6. CEO

Responsible for making major corporate decisions, managing overall operations and resources.

The CEO acts as the communication links between the board, corporate operations and the public.

CEO is elected or hired by the board and shareholders.

Models of Good Governance: 7. Chairperson

The Chairperson ensures that the board is effective in its task of setting and implementing the company's direction and strategy.

The chairperson is appointed by the board and the position may be full-time or part-time.

In a family business, this is normally a family member.

Vital to remember!

Ownership Structure

Sole Owner
- Ownership succession plan
- Board of Directors

Sibling Partnership
- Annual General Meeting
- Ownership succession plan
- Conflict Management

Cousin Consortium
- Annual General Meeting
- Chief family officer
- Family meeting/assembly
- Family educational programme
- Family foundation
- Family Office

Management Structure

Owner-Managed
- Management succession
- Board of Directors
- Risk control compliance management system

Family Managed
- Management succession
- Board of Directors
- Risk control compliance management system

Family-monitored
- Management succession
- Board of Directors
- Family council
- Risk control compliance management system

- There is no one-size fits all approach to manage governance inside your family business.
- Your governance needs depend on which stage of ownership your business finds itself in.
- It is important to remember that every family business is unique.

Formalisation of roles and responsibilities

There are several ways of doing the formalisation process of roles and responsibilities of various family members. Whilst none are a necessity, many are useful in supporting the work of family businesses.

- Through a family constitution
- Through a shareholder’s agreement
- Through a will

Formalisation of roles through: 1. Family Constitution

A family constitution ensures clarity and transparency by clearly setting our roles and responsibilities of family members.

It provides families with a place to go to when disagreements arise.

It strengthens the family's emotional cohesion, because the signatories work together to formulate the family constitution and educate the next-gen.

Ultimately, the family constitution acts as an indispensable link between the family and the business.

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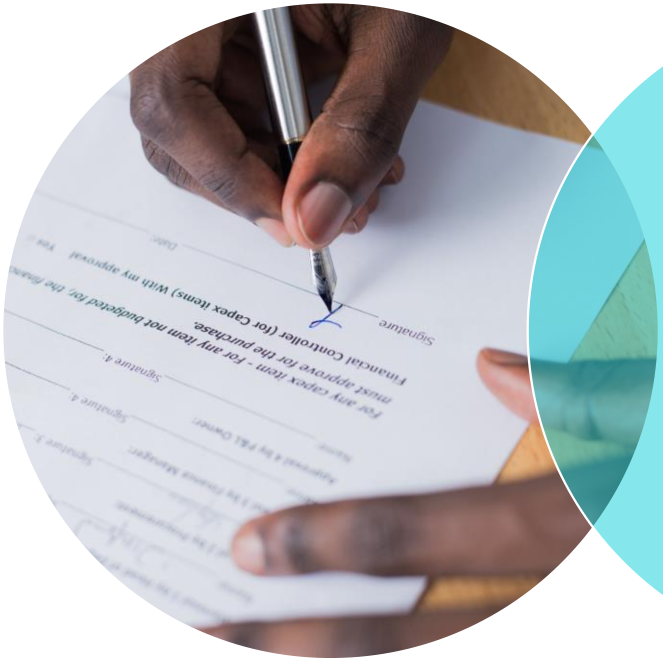
Formalisation of roles through: 2. Shareholder's Agreement



A shareholders' agreement is a contract between the shareholders of a company.

It provides additional protection around ownership and the procedures to be taken in relation to certain decisions.

The agreement often informs on issues such as the composition of the board of directors, voting rights, the transfer of shares, tag along and drag along rights, dividends and conflict resolution.

Formalisation of roles through:
3. Will

Creating a will is a fundamental step in the succession process of a family business.

A will can help you to manage expectations and make the right choices for the business in your lifetime to avoid future complication.

The process ensures you know which assets are owned by you personally, and which are business assets, as the distinction can cause problems if you get it wrong.

Case Study: Clarks

- Clarks was founded in 1825 when Cyrus and James Clark made a slipper from sheepskin off-cuts.
- They are one of the UK's oldest independent family-owned businesses
- Since then, Clarks has grown to be one of the most well-known shoe brands globally.
- In 1993, with the business in its sixth generation Clarks Shoes was almost sold.

Case Study: Clarks Problems

- The perceptions and aspirations of the family shareholders had become disconnected from those of company management.
- There were also major disagreements among the family around ownership and strategy.
- This was a classic case of disconnect between management and the owners.

Case Study: Clarks Solutions

- The family business governance needed to evolve to reflect the situation of the family.
- A family shareholder council and a strengthened board were at the core of new governance structures designed to improve communications, shareholder involvement and strategic clarity on business issues.
- This included better strategic alignment, and a more effective board. The creation of a formalised 'governance code' was key to ensuring the continuity of the family business and its' governance.

Case Study: Clarks Results

- The family shareholder council remains the pivotal governance structure.
- A "Governance Code" has been agreed, laying down guidelines about the division of responsibilities between management and ownership, and setting out clearly the objectives of the family council.
- The council has 16 members from family shareholders, elected for 4-year terms.
- The council meets 4 times a year, with meetings attended by the company chairman, CEO and finance director.
- Council can nominate 2 family non-executive directors.

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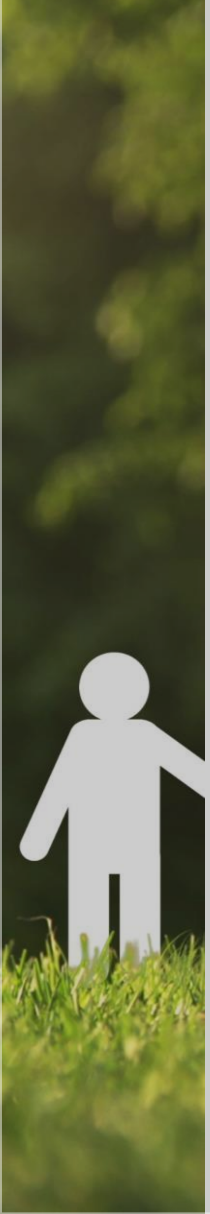

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On projects

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