Governance in SMEs and Family Business

Tony Balshaw
Owner managed businesses employ half the world’s workforce and generate more than half the world’s GDP. Yet their needs, problems and prospects are often ignored.
The Family System

• Inward-looking
• Expresses feelings
• Caring
• Protects low achievers
• Family leadership succession
• Lifetime membership
• Averse to change
• Risk-averse
• High dividends
• Recruits family first
• Equality
• Wealth preservation

Potential for Conflict

The Business System

• Outward view
• Unemotional
• Rewards performance
• Perform or leave
• Embraces change
• Risk-taking
• Reinvests capital
• Best person for the job
• Best qualified applicant
• Meritocracy
• Wealth creation
The Family Business system
... when do you start?

Influence

Incumbent

Successor & structures

Time

Joint influence
What keeps business owners up at night?

**Business concerns**

- trying to make decisions with my head instead of my heart
- meeting current obligations in this economy
- losing the company culture under professional management
- increasing cost of complexity as work scope expands
- strategic direction that will satisfy elder generation’s dividend needs and allow company to growth for future generation’s wealth
What keeps business owners up at night?

Business concerns

• unwillingness to listen, learn and be open to new ideas and suggestions on how to improve
• minority investors
• possible need for job reductions and its negative impact on morale and performance
• cost to manufacture and availability of technical, qualified workforce
• how do I get money out of company? Asset rich/cash poor
What keeps business owners up at night?

Business concerns

• repurposing our company for future needs
• soft board of directors
• my senior team is getting a little old
• lack of agreement from next generation as to the direction the founder or they want the business to take
Governance

- Over time increased professionalisation and accountability of management is necessary
- Formalised planning and reporting necessary
- Best practices should be followed
- Ownership and quality of management make all the difference
- There needs to be goal alignment and effort to achieve objectives
'Stakeholder inclusive’ approach

In the case of the ‘stakeholder inclusive’ approach, the board of directors consider the **legitimate interests and expectations of the stakeholders on the basis that this is in the best interests of the company**, and not merely as an instrument to serve the interests of the shareholders.
What are we missing?

“The substance of good corporate governance is more important than its form; adoption of a set of rules or principles or any particular practice or policy is not a substitute for, and does not itself assure, good corporate governance.”

The Business Roundtable (USA)
Building and strengthening mutual trust among the governance partners – the board, ownership and management – is the most critical issue of business governance.

Trust
Corporate governance

- Principle 7: The board should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.
Corporate governance

These are the governing body’s primary governance role and responsibilities:

- Steers and sets strategic direction
- Approves policy and planning
- Oversees and monitors
- Ensures accountability
Governance Outcomes

- Ethical Culture
- Performance and Value Creation
- Adequate and Effective Control
- Trust, Good Reputation and Legitimacy
Corporate governance

- **Principles** embody the aspirations of the journey towards good corporate governance.
Corporate governance

- Principle 1: The board should lead ethically and effectively.
Corporate governance

- Principle 2: The board should govern the ethics of the company in a way that supports the establishment of an ethical culture.
Corporate governance

- Principle 7: The board should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.
Characteristics of good directors

- integrity
- calibre and credibility
- skill and experience
- judgement independent of management
- courage to express opinions
- asks the difficult questions
- decisive
- strong interpersonal and communication skills
- works well with others
- confronts conflict and helps to manage it
Characteristics of good directors

- strategic thinkers
- leadership
- inquisitive
- analytical
- offers solutions
- incisive – gets to the core of the issue
- understand business and finance
- has industry awareness
- prepares properly
- time and energy
Corporate governance

- Principle 8: The board should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties.
Corporate governance

- Principle 16: In the execution of its governance role and responsibilities, the board should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the company over time.
Governance

Family Governance (social/relational)

Business Governance (contractual/agency)

Governance

Management

Executive Team

Functional and Operational Teams

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Governance

Contractual/Corporate Governance

TRUST
Trustees

Holding Company
Board of Directors

OPERATING COMPANY
Board of Directors

Governance

Management

CEO

Executive Management Committee
Ownership ...

The constructive reality of **committed, cohesive, experienced, wise ownership** is a resource unimaginable to businesses.

Craig Aronoff
There is nothing in the constitution that says a member of the board can’t tell the chairman to wear a pullover.
Family Shareholders’ Committee

- Manages interaction between family owners and family business
- Forges the owners' goals, visions and values
- Consider acquisitions and disposals
- Setting goals – growth, risk, liquidity, profitability
- Ensure top executives at helm are competent and doing a good job
- To elect directors – criteria and candidates recommended by the board
- Evaluate shareholder ROI and changes in shareholder value
Family Shareholders’ Committee

- Develop a dividend policy and consider dividend issues
- Determine entry policy of family into family business and review individual applications
- Develop family's own share capital markets value
- Ensure openness on remuneration related matters:
  - family
  - key executives
Major purposes of a Family Table meeting

• To foster healthy communication and transparency among all family members
• Maintaining and strengthening the bonds of trust in the family
• Preserve family values and traditions across generations
• Quality time - building unity, relationships and understanding
• To pass on family values, such as work, education, community, integrity, respect, and loyalty
• To communicate core values relating to finances and their relationship to wealth management
Major purposes of a Family Table meeting

- To communicate with in-laws and the younger (next) generation, opening up a dialog about their ideas and intentions, and assessing their developmental readiness to handle money
- Nurturing the legacy and affirm family members
- Alignment of personal objectives and expectations with that of the collective family owners
- Learn about the business. Develop understanding and commitment to processes and structures are in place
- Clarify roles in the family, business and ownership
Major purposes of a Family Table meeting

- To deal with a change or transition in family circumstances, such as the sale or acquisition of a business or the death of a family member
- To achieve an emotionally healthy transfer of wealth
- To overcome a conflict
- Perform acts of service
- Review issues within the context of the G.E.N.E.R.A.T.I.O.N.S. framework
Corporate governance

- Principle 14: The board should ensure that the company remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.
"As are societies, so is family. If well ordered, well instructed and well governed, they are the springs from which go forth the streams of greatness, prosperity and happiness."
# Family creed

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<tr>
<th>Family vision, values and philosophy</th>
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<thead>
<tr>
<th>Ownership philosophy</th>
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<tr>
<th>Management philosophy and objectives: Family Company</th>
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<tbody>
<tr>
<td>- Professional management</td>
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<tr>
<td>- Dividend / distribution of profit policy</td>
</tr>
</tbody>
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<thead>
<tr>
<th>Role of governance structures</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Introduction</td>
</tr>
<tr>
<td>- Board of Directors</td>
</tr>
<tr>
<td>- Board Chairman</td>
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<tr>
<td>- Family Shareowners’ Committee</td>
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<td>- Family Council</td>
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<th>Funding of the Family Company</th>
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#BB@9

SNG
Grant Thornton
An instinct for growth
# Family creed

## Employment and remuneration of family: Family Company
- General principles
- Process for family members to join the Family Company
- Retirement age

## Communication

## Financial information and confidentiality

## Conflict of interest

## Dispute resolution

## Employees

## Family archives

## Other matters

## Amendment of the family creed

## Conclusion

## Glossary of terms
Q&A Session
Thank you for joining us for today's webinar.

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