

Good Governance: The secret of a Successful Family Business

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A good corporate governance is the recipe for a successful family business and a lifetime guaranty to business longevity. Once a family business reaches a certain level of maturity and complexity, which could be manifested in the increasing number of stakeholders as a result of inheritance or by business diversification, decision making becomes extremely challenging and can result in the upsurge of conflicts. This is when creating an effective and tailor-made structure for the corporation and the family becomes an inevitable step for ensuring business performance and family harmony.

Although, there is no unique model of corporate governance applicable to all family businesses all governance structures aim to set a guidance for future generations in terms of how the business should be directed, managed and controlled. A good corporate governance regulates the interaction between the beneficiaries, organs of administration and of executive management, and draws a line between family and business.

Why is governance an absolute necessity in the case of family businesses?

Keep up with economic trends

The absence of a clear decision making process can result in continuous chain of losses of opportunity. Family businesses with a well-functioning board of directors can more appropriately shoulder the responsibility for making such major decisions and brings in creative and strategic thinking, valuable insights and diversity to the business.

Overcome Conflicts

The use of family governance tools increases the sense of harmony and ownership with the business. Family members feel responsible and part of the business success. Governance tools help the family members and the executive management communicate, interact and exchange ideas and perspectives. The constant reminder of having a shared vision helps mitigate the risk of intense and irremediable conflicts. Whilst disagreements, conflicts and fights cannot be eliminated, putting in place a resolution mechanism can contain a conflict by setting clear and immediate procedures for disputes resolution avoiding prolonged and dramatic conflicts.

A coherent governance system can assist families in facing challenges. Merely having a set of listed structures and policies in place does not necessarily amount to a good governance practice, as reaching a positive impact through governance requires governance to be “lived and breathed” every day. Belief in the family values, respect and proper integration are essential pillars to good governance. An important element which can make or break the process of implementation is careful analysis of whether the adopted governance strategy is really fit for this particular family or its business. Each family business

should look at its own needs and objectives and, based on this consideration, choose workable governance bodies, policies and procedures.

Overcome Vulnerability

The business is most vulnerable during succession. The absence of clear succession plan and adequate tools enabling the smooth transition from one generation to the other can lead to complete freak out among family members threatening the survival of the business. A governance manual will provide future generations with guidance to a reliable path for succession.

A good corporate governance is a protection for the family and the business, for current and future shareholders by maintaining the balance of power between the different corporate bodies, promoting cooperation, generating jobs and achieving financially sustainable enterprises; and, ensure adequate and timely disclosure of all relevant persons.

Depersonalizing Issues

A good corporate governance allows setting a robust and impartial dispute mechanics and decision making process that help disentangle matters from its family characteristic while keeping an eye on the family's shared vision, by having a multilayered governing structure and engaging experts to ensure effectiveness, fairness and excellence. This also eliminates sensitivity and awkwardness between family members as disadvantageous decision for a family member is not the product of one person or a family branch but the product of a group decision of a consortium of accountable experts appointed on the governing bodies in accordance with an approved recruitment policy.

Ensuring Business Sustainability

Effective operations and governance policies implemented by family business ensure business sustainability. Business can survive if no family member is ready to step up and lead the business, if there is no suitable successor in the family. A good governance manual should provide for these scenarios and specify the eligibility criteria for undertaking management roles, who can take part in the business and who approves appointments.

What are the indications of having a good governance?

No favoritism

A good governance does not entertain favoritism and kills any sense of entitlement by family members. It creates a business environment and culture driven by principles of merit and equal opportunities. The internal policies and the decision making processes are impartial and fair, the same for family members and non-family members with no exceptions.

Involving family members in the business is not necessarily a harmful decision, the important thing is to ensure that people who are put in managerial positions have the necessary skills and education to assume the responsibilities associated with these positions. When family members realize that there is no room for favoritism, only family members who are really keen on the business, start gaining the required education

and expertise to be eligible to get involve in the business.

Clear Role and Responsibilities

It is important to define the role and responsibilities of each governing body. A functional governance structure accommodates shifts in responsibility from family members to outside individuals on the basis of qualification and merit, and the interdependence of both.

Solidarity

Good governance does not mean having ruthless policies with no consideration to family members' hardships. It is important that the business governance provide for committees dealing with family members' financial difficulties, by setting up a fund granting financial assistance to family members facing hardships subject to certain eligibility criteria.

The governance structure should allow family members to feel that the business is the backbone of each one of them.

Sense Ownership

A good governance integrates family members in the business and the decision making creating a sense of ownership and belonging to the business. They feel part of this success and responsible for ensuring its continuity. They are not distant from the business and its difficulties, and thus, they develop a sense of solidarity too to the business.

Conclusion

There is no unique model of corporate governance applicable to all family businesses. Corporate governance gives families the tools for effective business operation and conflicts resolution. Accordingly, as a first step families need to study and understand the uniqueness of their business and family to put in place a tailor-made governance manual suitable for their business and family dynamics.

An unsuitable governance structure is as bad as no governance at all. Each family must undergo a thorough analysis of its dynamics, needs and goals, with the involvement of the right expertise, prior to setting up a governance structure for the business.

Al Tamimi & Company's Corporate Commercial team regularly advises on Governance with an element of insolvency. For further information please contact [Ingy Darwish](mailto:I.darwish@tamimi.com) I.darwish@tamimi.com or Abdullah Mutawi a.mutawi@tamimi.com.