Governance: A Necessity for the Family in Business

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March 2016

In order to ensure stability, one must take a long term view. The key to having a stable family-owned business is to ensure that it is managed in a way that allows it to grow, prosper and avoid paralysis. Attaining this objective is no easy road and this is where the value of governance comes into play.

Governance is an essential process through which family businesses can set and implement rules governing and regulating different aspects of the business. It is a practice that covers a wide scope that could range from regulating the employment of family members to the setup of board committees to developing a balanced and coherent investment strategy. Governance should ensure the attainment of the overall vision and objectives of both the family and the business and set the necessary implementation strategies, allowing the family business to succeed without fracturing family harmony. Governance is an ongoing journey which moves with the business and adapts to its needs.

The Necessity

For family businesses specifically, good governance should not be viewed as optional, but essential. Governance can deliver the necessary solutions for the challenges all family businesses encounter and facilitate amicable resolution of issues all family businesses face. Such challenges can differ depending on the stage the family business has reached and the generation currently in charge.

For example, family businesses controlled by the founder generation often struggle with letting go and entrusting the next generation with responsibility and control. In contrast, family businesses where the business has already been passed to the new generation may find it difficult to cope with the differences of mindset, the involvement in the business and the need to work with other stakeholders, as some stakeholders may want growth while others may want a cash out.

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

Particularity

In family businesses, two essential elements should always be given due consideration, i.e. the family element and the business element. Balancing these two key elements forms the ideal road to success and continuity of family businesses. While applying governance to family businesses is more complicated than applying it to ordinary companies, governance is even more necessary in family businesses whose survival depends on the satisfaction of entirely different needs.

The law disregards this particularity, but tools are available for family businesses that recognize the importance of governance and wish to put it to good use. The implementation of governance is not only beneficial to the business, but it can also assist in regulating and defusing family issues and can ensure that family issues do not overwhelm the business. In the real world, striking this desired balance can be challenging. Factors such as emotional baggage, family ties and family traditions often get in the way. Good governance helps families build a stable base of consensus and can result in more transparent, clear and stable family affairs, promoting family unity and harmony and also attributing to the business's growth.

Growth in Numbers

In addition to the growth of business operations, the rapid growth in the number of shareholders in family businesses through generational change in the GCC region also attributes to the need for governance in these businesses. Large families are part of the culture in the GCC and the simple entrepreneur can have dozens of children and grandchildren, all of whom will grow up to be stakeholders. Managing this growth through governance by adopting an appropriate structure with distinct ownership and clearly defined roles can promote stability and can induce more positive growth.

Transition

In family businesses, transition of the founder out of the business due to health or morality is often a sensitive topic and a tricky phase which requires delicate planning to avoid conflict and potentially grave consequences. Setting a succession plan as a part of governance is often the key to a smooth transition of its business and its very survival.

What are the risks that a family business may face without governance?

Loss of opportunity

Whilst not having a sound governance system in place does not necessarily mean the demise of the business in the short future or a loss of its profits, it can result in a continuous chain of losses of opportunity. Family business that put in place a governance strategy have better coordination and are likely to achieve and prosper even more. With no clear governance “lowest common denominator” decision making prevails as every stakeholder has a veto power, usually not the best way for the business to move forward.

Upsurge of Conflicts

Conflict in the case of family businesses can often be emotional and dramatic. The absence of governance can lead to the lack of healthy communication between family members and can result in the upsurge of such conflicts. Families need a framework to decide issues which must be resolved. Also, to the family unity and the success of the business, setting a conflict resolution mechanism can contain, speed and simplify the process of resolving any disagreement.

Damaging Nepotism

Whilst family succession has many positives and is the arm of most families, this is not to be confused with damaging nepotism i.e. the promotion of family members into roles they are not capable of performing, or to which they are manifestly unsuited. The absence of governance allows damaging nepotism. Putting in place a clear set of rules that regulates key elements such as the employment, development of family members, assessment and training of family and non-family employees in a fair and transparent way can help in avoiding damaging nepotism and can contain, save and preserve the business.

Effective implementation

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” everyday. 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.

Conclusion

Governance in family businesses is not just a trendy buzzword, it is a pressing issue for many GCC companies to which attention is long overdue. Governance is necessary because although family businesses are special, business is still business at the end of the day; and generational transition in business often creates threats to the business and family harmony. Only the planning and practice of good governance will effectively defuse these threats.