KEEP GOVERNANCE SIMPLE

by André Diederichs

The scheduled implementation of the new Companies Act and new Consumer Protection Act in April will force businesses to rethink how they govern their businesses.

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Ethics, and more specifically business ethics, places an increasing value on corporate governance. Ethics is an integral part of corporate governance and can no longer serve merely as an appendix to your family business strategy. "There is a close link between governance and ethics. The nature of corporate governance is such that the concept itself has an ethical character. It can be regarded as a moral obligation that directors have to take care of the interests of investors and other stakeholders," says Deon Rossouw, CEO of the Ethics Institute of South Africa.

> LEADERS ARE THE STEWARDS OF THE FAMILY BUSINESS AND THE WIDER COMMUNITY INTERESTS

The most widely used definition, introduced by the Cadbury Report in the United Kingdom, explains corporate governance as, "The system by which companies are directed and controlled."

Corporate governance is the process by which business entities, including family businesses, are directed and controlled by their leaders. For family businesses, the appointed leaders and managers, whether family members or not, are the stewards of the family business and often, of the wider community interests too.

Good governance is an important business imperative and can create a competitive edge for family businesses. If a family business does not exercise good governance it might be excluded from trade. In order to remain successful and profitable over several generations, family businesses must understand and address the following factors:

- The environmental changes arising from the global economy.
- The impact of global competition and its impact on regulation.
- The impact of deep-rooted family and business values that may need to be adjusted to remain relevant in a changing world.
- The need to focus on all stakeholders (government, employees, customers, etc.) and not only on family members.
- The responsibility, to the community in which the business operates, to be seen and accepted as a good corporate citizen.

In a family business the system of management, or governance, must adhere to the letter of the law but must be kept as simple as possible to enable family members, at all levels, to understand and embrace sound business practices. In the book, *Manage family in your family business*, Gideon Maas and this author say: "For your family business' management system to be effective, it must take into account the following:

1. The strengths and personal vision of each family member. Remember to write them down to avoid vision changes according to a whim.
2. The image that the family wants to project and how it would like outsiders to perceive the family.
3. The family's values, which must be realistic and not merely window-dressing, should be set out in a formalised statement.
4. The 'rules'– preferably formulated in a family constitution – that govern the behaviour and activities of family members.
5. The need for regular formal family meetings at which matters can be discussed.
6. The need for a business mission and goals statement that drives the business strategy.
7. The need for a straightforward and clearly detailed business plan or business strategy document.
8. The need for a formal family board (advisory board) comprising family and non-family members that can help the business grow.

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9. The need for detailed control measures so the degree of adherence to the values and rules of the business, and the extent to which the business's objectives are being achieved, can be measured regularly. If you cannot measure these facets, you cannot hope to properly manage the journey you are undertaking!"

Running a family business is a way of life to create income, and more importantly wealth, for the family over time. Keep in mind that if you have a history of poor governance then you cannot create new systems overnight to enforce governance. If possible, it is a good idea to start with easier management structures in order to gain experience of working together in a more formalised manner.

If the concept of a family governance structure is not discussed openly and agreed on by all family members, a situation of us versus them can easily develop. This conflict can easily lead to ongoing friction in the family and the business and could, in time, lead to failure and closure of the business.

If you want your family business to be successful you must have clear and sound governance structures in place. Rules must be clear to everyone involved and family members, or employees, who do not adhere to the governance principles agreed upon, must suffer the consequences. The guidelines outlined above should help you to gain confidence quickly and to move on to a more formalised governance structure. Remember, the starting point is to openly discuss and agree on the governance processes. This will place you in a good position to identify, implement and manage your business governance structure. S

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