




# From Family to Corporate Governance



Prof.Dr.Aung Tun Thet





**Succession planning is  
twofold. One is an  
emotional one -- the  
desire to leave a legacy --  
and one is a financial one.**



# Governing Family-Run Business





# **Business**

- **Personalities**
- **Passions**
- **Power**



# Corporate Governance

- More **complicated** than non-family owned companies
- *What happens when your BOD include your **cousins**?*
- *Or CEO your **sister**?*



# **Governance of Family Business**

- **Ownership controlled by single family**
- **Family foundations**
- **Family investment funds**



# Effective Governance

- **Generate**
- *Sense of **direction***
- ***Values** to live by or work by*
- *Well-understood and accepted **policies***
- *Brings right **people** together at right **time** to discuss right (important) **things***



# Effective Governance

- **Informal** casual
- **Formal** structures (e.g. boards, councils) and processes (e.g. agendas, voting)





# Family Enterprise

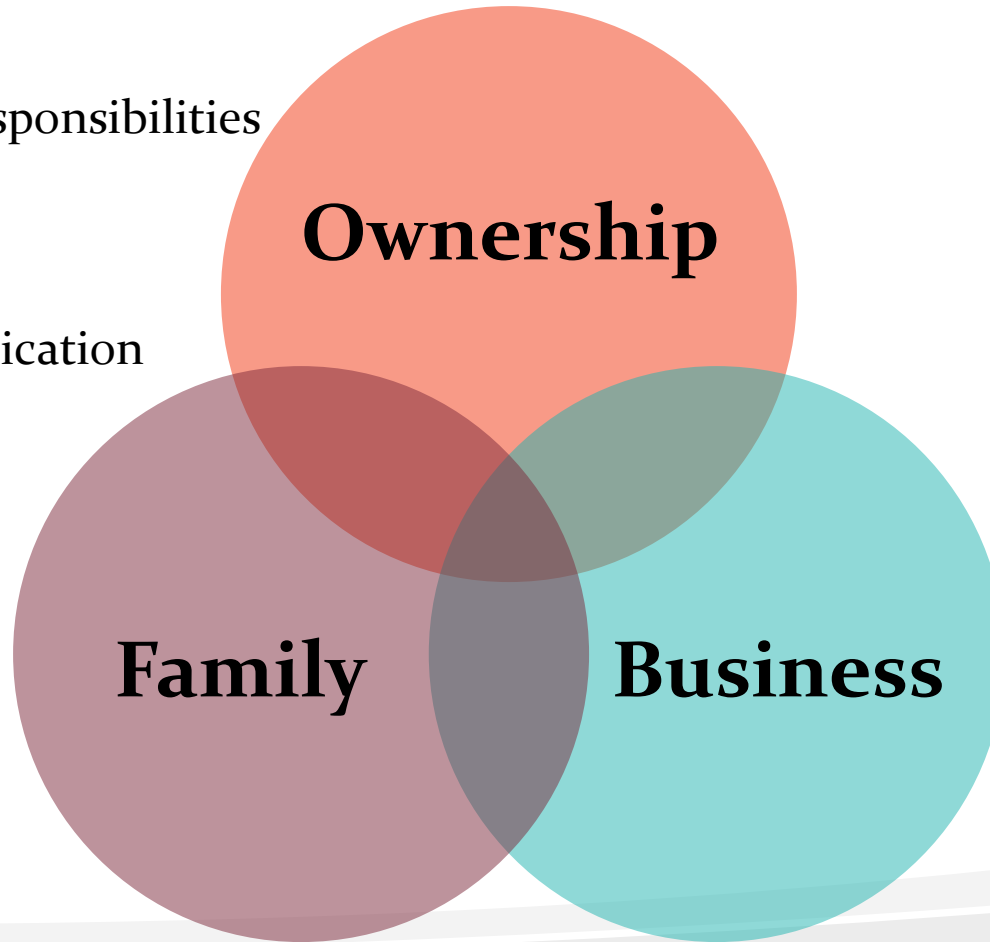
- **Mixture** of business, family and ownership concerns
- **Three** overlapping groups:
  1. Family
  2. Business
  3. Ownership



# Systems

- Values/Vision
- Legal Structure
- Ownership Transfer
- BOD

- Roles/Responsibilities
- Values
- Myths
- Conflict
- Communication



- Mission/Strategy
- Culture
- Organization Structure
- Compensation
- Decision Making



# Family Enterprise

- Overlap among three groups lead to **differing** points of view
- **Reconciled** in respectful way
- **Communication** and **decision making** within and across family, business, and ownership groups



# Family Charter

I  
M  
B  
U  
E

Ownership

Leadership

Employment

Communication

Governance

R  
E  
N  
E  
W

STRUCTURES

VISION & VALUES

Family  
Values

Business  
Values

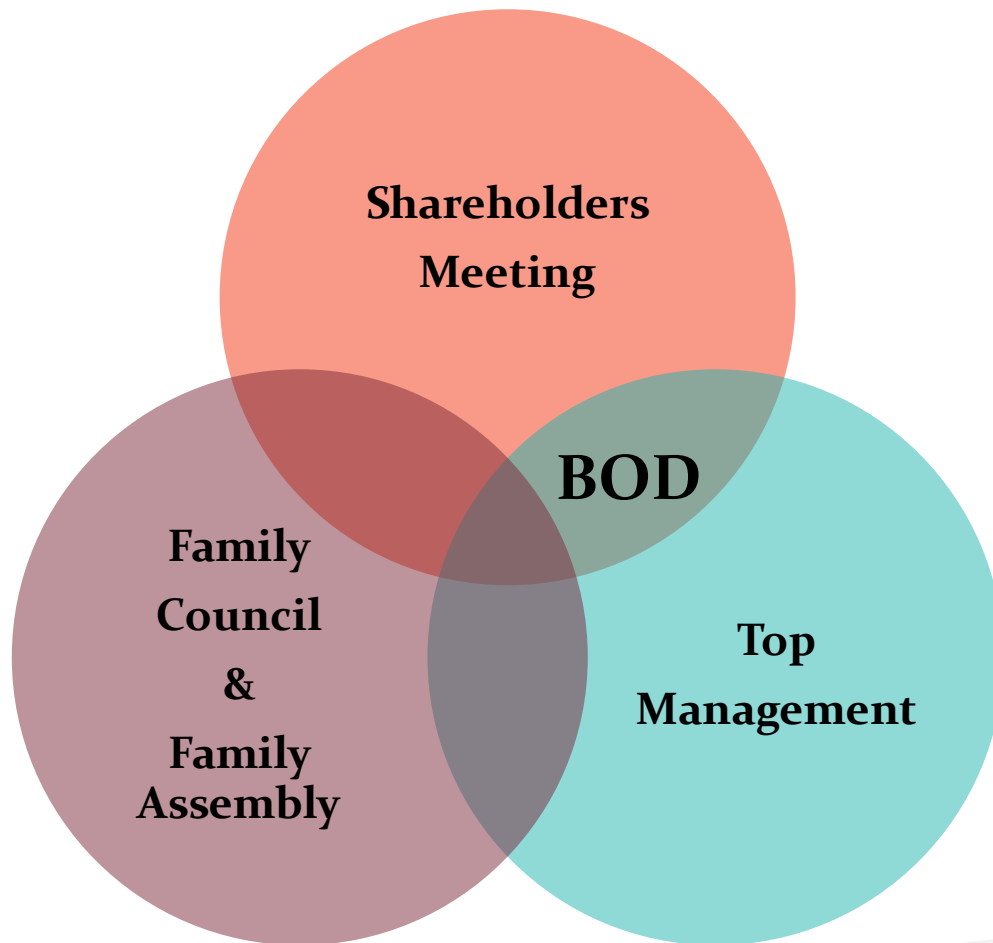


# Good governance

- **Clarity** on roles, rights, and responsibilities for all members of three circles
- **Encourage** family members, business employees, and owners to act responsibly
- **Regulate** appropriate family and owner inclusion in business discussions



# OWNERSHIP




**FAMILY**

**BUSINESS**



# Family Business vs. Corporate governance – *Meeting in the middle*





**“WHY DO I NEED SUCCESSION PLANNING? I’M  
VERY ALERT, I’M VERY VIBRANT. I HAVE NO  
INTENTION TO RETIRE.”**

**SHELDON ADELSON**

© Lifhack: Quotes





# Family Businesses

- **Key players** in global economy
- Wal-Mart, Toyota, Ford, Samsung, etc.



# Better family business performance

- Family members constitute '*the why*'
  - providing for family, leaving legacy, etc.
- Governance embodied '*the way*' - *how*



# Better family business performance

- **Regulate** how decisions made
- *Who is **accountable** to whom*
- *Who is **responsible** for what*
- *How business **managed***



# Why family business need Governance

- **Succession plan**
- Managing **growth** of business – *defining company's structure, people's roles and responsibilities, and chain of command*
- **Keep peace**
- **Manage** performance evaluations, rewards, and promotion



# Why family business need Governance

- Improve **business performance** by meeting strategic objectives
- Satisfying **expectations** of all family members and non-family employees
- ‘**The way we’ve always done things**’ must change



# Meeting in the middle

- Putting governance structures in place won't happen **overnight**
- **Start** with:
- *Establishing family council to formalize communication*
- *Giving **everyone** chance to voice opinions on business decisions, succession planning, strategic objectives, and future of company*



# Meeting in the middle

- **Next step**
- Bring on **BOD** or **advisers**, drawing on outside expertise (non-family members) to provide unique insight and advice
- Family members establish **policies** to guide strategic business decisions regarding management, leadership, operations, and ownership



# Implementing good governance framework

- Start **early** – whether first or third generation
- **Ensure** family and future provided for





# Corporate governance and Family Business: *Managing Paradoxes*





**"True succession  
planning takes time—  
it's a process, not an event"**



# Family Businesses

- Stages of learning
  1. Learning *our* business
  2. Learning *to lead* our business
  3. Learning to *let go* our business



# Best Practices

1. ***Clarity of roles*** of management and BOD leading to *balance of skills, experience and independence*
2. ***Management of risk*** and use of *formal mechanisms* to encourage BOD and management effectiveness



# Best Practices

3. *Timely and balanced picture of all material matters*

4. *Allocating appropriate rewards*

5. *Integrity in decision-making and integrity in reporting*

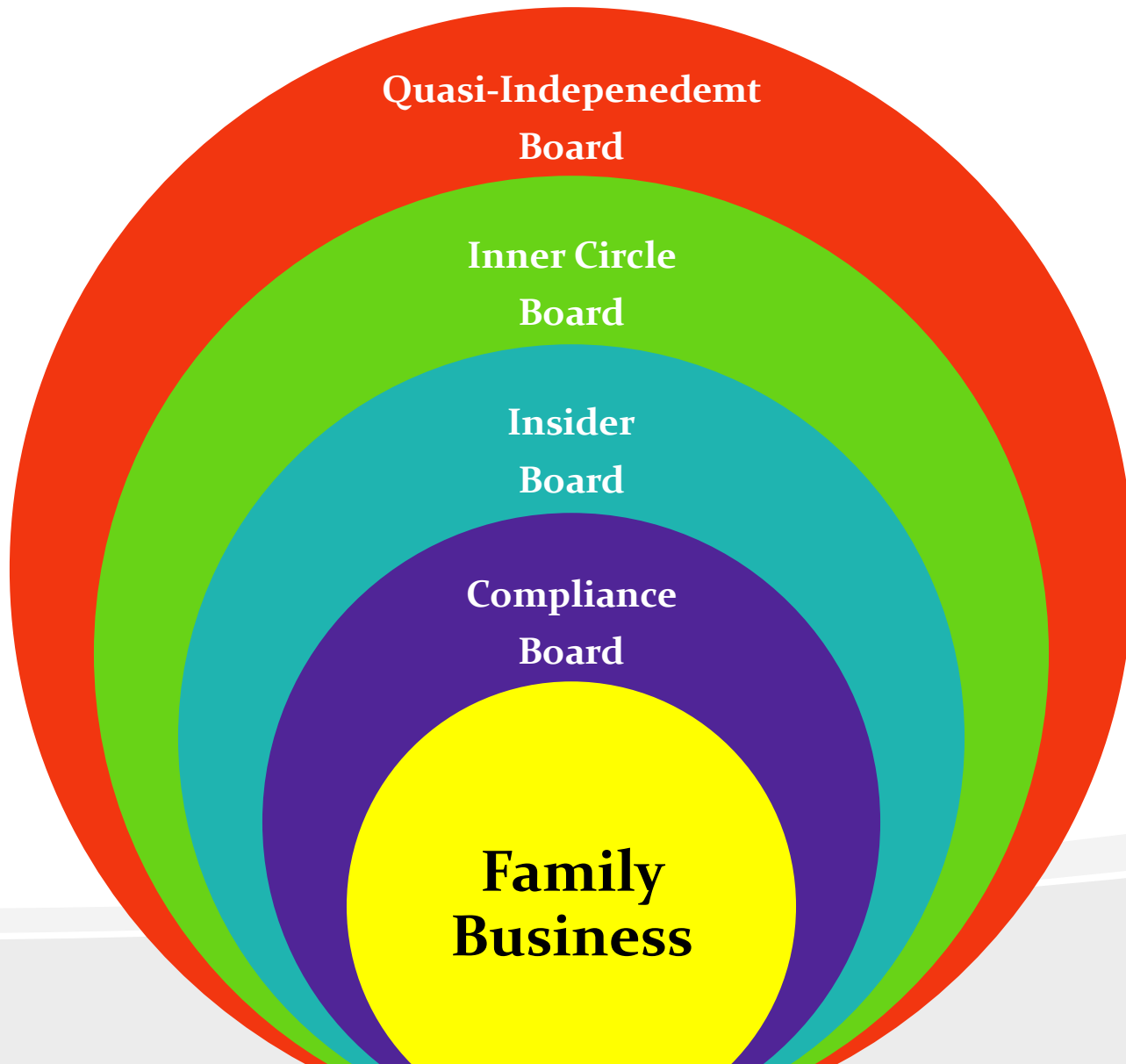
6. *Upholding rights of shareholders and recognizing legitimate interests of all stakeholders*



# Leading Family Business

- External factors and family issues accommodated **simultaneously**
- Leaders of family businesses run businesses in increasingly **formal**, professionalized way
- While maintaining **informal**, family values

# Family business corporate governance model





# Issues

- **Separating** company's needs from family's needs
- **Perspectives, experiences, networks**
- Help CEO look **beyond** tactical issues
- **Accountability**





# Issues

- **Risk management**
- **Objectivity and independence**
- **Planning/advising on CEO succession**



# Issues

- Safe harbour
- Smoothing **ownership transition** to next generation
- Planning/advising on **exit strategies**



# Changing Governance model

- Don't want to **give up control**
- Don't want to share **confidential information** with outsiders
- No time to go through formalities of having **BOD**
- **Expensive**



# How can I keep my business in the family?

- Implementing governance system which brings together family and business side meet **number of objectives:**
- *Aligning business with long-term strategy defined by management of shareholders*
- *Ensuring group durable and successful*



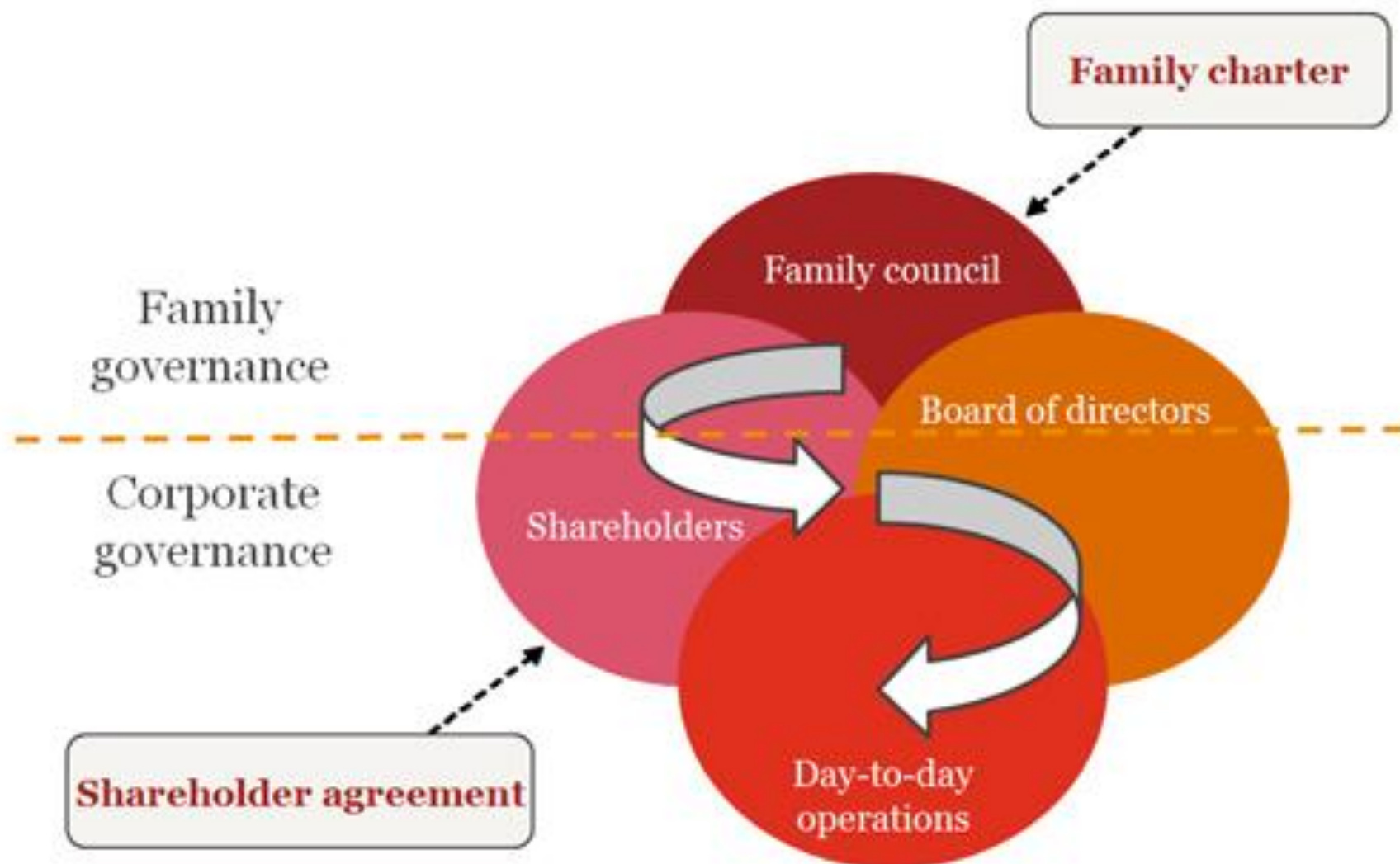
# How can I keep my business in the family?

- *Ensuring **stability** by making sure shareholders, managers and employees work together efficiently and openly*
- ***Projecting** business-like image in line with structure, attracting talented individuals and providing them with incentives*



# How can I keep my business in the family?

- *Ensure families **represented** at board level*
- *Manage **relationships** between family shareholders through family shareholder agreements or organize family councils*





# Step 1 – Create Values

- What is your **starting point**?
- What is your **philosophy** and what is your **vision**?





## **Step 2 – Make family adhere to values**

- **Gather** family members
- **Develop** understanding of family way of living



## Step 3 – Turn vision into reality

- **Develop** rules to govern monitoring of shareholders
- **Design** principles to settle conflicts of interests within family
- **Define** remuneration/ shareholding policies for business's non-family or family management



# Step 4 – Formalize legal framework

- Help external lawyers **adapt** agreements to suit family's circumstances



# Questions to consider

1. Is our **current approach** to governance working for us right now?
2. If we **change** our approach to governance, what should we do and how should we get there?
3. What **responsibilities** should our board take on that it's not currently doing?



“

*Failing to plan*  
**IS**  
*planning to fail*

”

 **Thank You!**

