Corporate Governance and the Family Business: Managing the Paradoxes

– *Mary Barrett and Ken Moore*

Australian researchers Mary Barrett (University of Wollongong) and Ken Moore (Griffith University) studied family businesses and the governance issues they encounter at different stages of the life cycle. The authors recognize that family businesses face more complex decision-making scenarios due to the interdependencies between ownership and management. Major decisions in a family firm affect both the family and the business systems. These also create paradoxes about running family businesses that do not occur in non-family businesses.

These paradoxes include the following –

- **Going out to learn 'business'** - Venturing out of the family business and gaining experience in an external firm is essential if one needs to understand how business is or must be run (independent of the owner family context).
- **Learning 'our' business** - Recognising the specific values of - 'our'- the family's business (as contrasted to those of the others) is essential for ensuring the continuity of business and family.
- **Learning to 'lead our business' -** Creating and managing business strategies, structures and systems in professional manner is paramount for a family business leader. These would involve mixing of 'internal' with 'external' board members and executives, combining the ordinary with the extraordinary and keeping them bonded together with the invisible thread of the family culture.
- **Learning to 'let go our business' –** The leader needs to learn how to let go the business by building a future for the business and the family when the leader would cease to be there. And, this is to be done while he/she is still holds the leadership position.

The authors provide a set of **best practices** they observed among successful family businesses with high levels of professionalism in their governance and management. These practices include the following -

- **Clarity of roles** of management and the board, leading to a balance of experience, skills and independence – an improvement over the vaguely defined operational roles in early stages of business.
- **Risk Management** and use of formal mechanisms to encourage board and management effectiveness. These include -
  - Effective performance review system to ensure competence of decision makers.
  - Inclusion of external members on boards and consultants for an objective viewpoint and
  - Recognising the ways in which the family brings value to the business.

- **Timely and balanced** picture of all substantial issues communicated to all concerned - through regular interaction with family members on both family related issues and business matters.
- **Allocating appropriate rewards** - Families often think that their members deserve equal rewards. However, people in family business must be rewarded according to their respective contribution and its significance. The rewards and remuneration must be in tune with the market rates.
- **Integrity in decision-making and reporting** - Crucial decisions must be made with integrity towards the firm. Selections in family firms including the choice of successor must be on the basis of merit – i.e., the person's capacity to do the job. Similarly, decisions regarding paying dividends to family members must be clear and justified.
- **Upholding shareholders rights** and recognising the legitimate interests of all stakeholders - Managements of family firms must ensure sustainability of business and interests of various stakeholders when they make decisions about - payouts to family members and others, selling out the business or other crucial decisions that majorly affect the firm.

The family business leadership must concurrently accommodate the external factors and family issues for the survival and growth of the firm. This means that as the business grows, the leaders of family firms must run their businesses in a progressively formal, professionalised manner, while at the same time preserving its informal attributes like family values, tradition and culture that makes it distinct in the first place.

Source: *Keeping Good Companies, December 2003, pg. 689-690 (Research Online, University of Wollongong).*