How governance systems can transform your family business

Corporate governance has witnessed an increase in growth and recognition as more family businesses confront the new reality. Family businesses are reflecting on the purpose of the firm and taking measures towards momentous change for renewed company mission, vision and the role the business can play in the broader society.

Family business governance addresses the control mechanisms within a family business and instils official guidance depending on the level of influence the family has over the business. Direct policies and regulations can protect family corporations from family members' desire for power, harm, and misconduct. It also protects family wealth from non-family members in the business.

Transparent governance resolves internal tensions and enhances business image and credibility. A comprehensive family business ecosystem covering crucial governance elements caters for the following:

Instilling sound corporate governance practices

Sound corporate governance practices instilled within a family business cater for an effective environment of transparency and accountability. This involves building a governance framework that implements timely and accurate practices that disclose transparency in regards of the business's financial status, structure, performance, and ownership. Accountability in corporate governance practices also ensures effective monitoring of the board's responsibilities, performance, and management. It also highlights the board's accountability to the shareholders to reinforce ethical and responsible business practices by promoting healthy management systems. This results in the implementation of corporate governance norms with fair and transparent functioning.

Highlighting the difference between family, ownership, and business

Overlapping roles between various internal stakeholders make the management of family businesses challenging. Family, ownership, and business have completely different implications and are separated to set direction for the family business system.   Family business governance comprehends the relationships between family, owners, and business and determine how these groups can interact and influence the performance of the enterprise.

Formalizing and regulating family members' involvement in the business

Formalizing family members' involvement helps to highlight and maintain how the family and any related enterprise will operate within the corporation. This involves setting in place set in place an action plan for ownership and key roles while also maintaining family values that will influence the enterprise's operations. This process also helps in establishing an effective plan for the role of ownership within the family, how it impacts decision making and key family leadership roles.

Communicating and documenting the family values and vision to all family members

The development of a family governance system plays a pivotal role in aligning the interests of the business with that of the family members involved and formalizing the relationship between the two. An effective governance system will not only document and communicate the family values, vision, and policies in relation to its members and the business but will also help in fostering a sustainable business environment that preserves the family's wealth.

Recognizing and resolving existing or potential family conflict

Through official policies and procedures, businesses can mitigate any areas that might cause problems. The definition of clear-cut guidelines helps avoid any potential conflicts that might arise. Establishing a conflict resolution committee can focus on defining the policies for areas of conflict and shift the time and focus towards continuous development.

Establishing formal communication strategies and channels

Communication is a key component of every business operation. For a corporate governance system to be implemented, rules, procedures, external and internal updates, and decisions are documented and communicated. The system involves implementing effective communication within the company as a whole, ensuring that the new practices are followed. Official communication channels are established among individuals and teams allowing employees to share their ideas, aspirations, and problems. Communication channels can also be used to gather family members involved and make informed decisions when needed.