

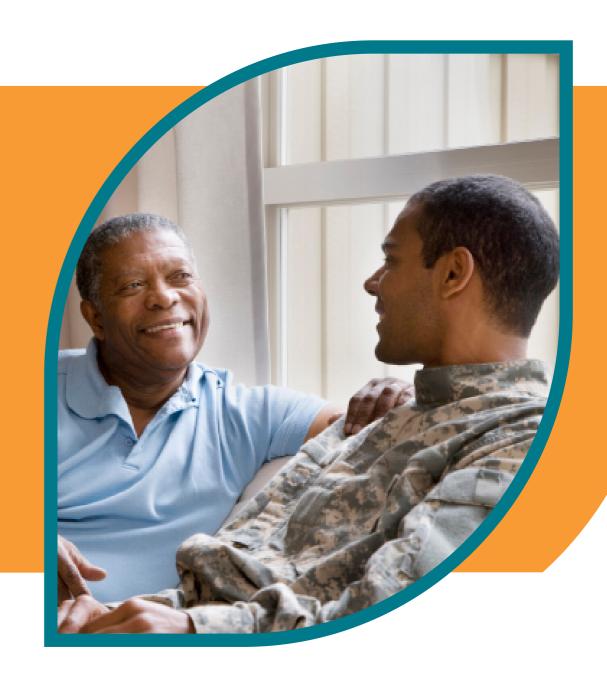


Directors Forum

Publication No. 6

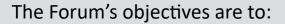
Effective and sustainable good governance practices of family businesses

November 2021



About the Directors Forum

To support the MIoD in building more effective boards and to promote good corporate governance, the Directors Forum (the Forum) was set up in 2012, in collaboration with PricewaterhouseCoopers (PwC) Mauritius. The Forum acts as an Advisory Council and Technical Committee to the MIoD.



- identify issues which are of most concern to directors,
- produce position papers and, through consultation with Government and regulators, contribute to policy development,
- be the voice for governance and directors' issues in Mauritius,
- develop guidance on governance issues in Mauritius.

The Forum would like to acknowledge the contributions of Chinien Prabha, Dinan Pierre and Teeroovengadum Kevin, as Sub-Committee members, in the drafting of this Position Paper.

Collectively, the Forum is made up of members who are respected local directors and professionals with backgrounds in law, economics, finance and accounting, corporate and securities regulation, business and academia, in the private and public sectors.

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Position Paper series

Previous Position Papers produced by the Forum are listed below and can be accessed at:

- miod.mu/publications/position-papers/
- pwc.com/mu/miod-position-paper-6

Paper 5:

COVID 19 - Key considerations for Directors (September 2020)

Paper 4:

Board Evaluation (November 2019)

Paper 3:

Engaging with Shareholders -A Guide for Boards (September 2014)

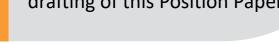
Paper 2:

An Ethics Guide for Boards (December 2013)

Paper 1:

Best Practice Guidelines for the **Appointment of Directors** (September 2012)





Executive Summary

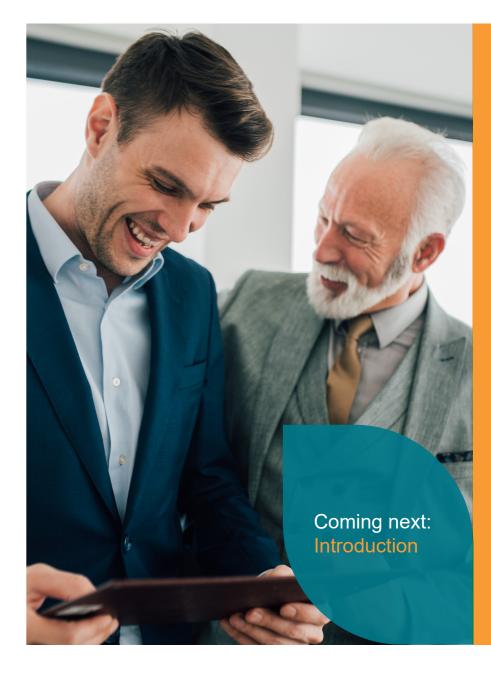
1. Executive Summary

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The objective of Position Paper 6 is to provide a guide to the effective and sustainable good governance practices of family businesses while highlighting the common challenges faced and coming up with their solutions. The Paper also guides family-controlled companies falling under the scope of the National Code of Corporate Governance for Mauritius (2016).

Common governance challenges to family businesses discussed are the lack of succession planning, difficulties in acquiring and retaining talents at management and executive levels, risks of glass ceiling and legal non- compliance, and mistrust of stakeholders.

Solutions to the above challenges and sustainable practices for an effective good governance process are also provided in this Paper.





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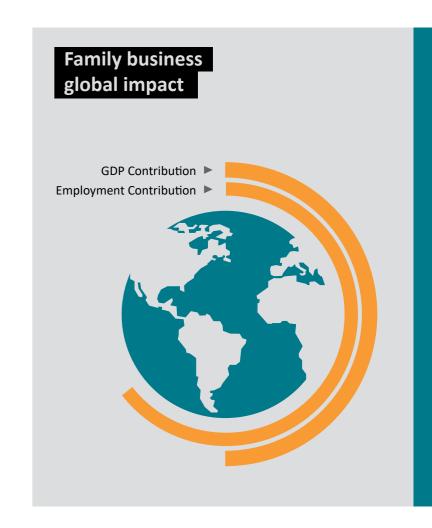


A family business may be defined as one whereby the decision-making process is significantly influenced by one or more family members. Its classification criteria may include the following by family members:

- Percentage of ownership;
- Voting control;
- Power over strategic decisions;
- Involvement of multiple generations; and
- Active participation in management.

Globally, family businesses are estimated to contribute more than half of GDP and two-thirds of employment (Villalonga and Amit, 2020). In Mauritius, family businesses, which extend from micro businesses to conglomerates, significantly contribute towards the economy.

Family businesses in Mauritius, whether recently founded or long-established, are inherently resilient and bring with them various advantages. However, they do not escape difficulties, including governance challenges and perception of favouritism, which may threaten their sustainability.



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Advantages of family businesses

It is generally believed that family businesses stand to benefit from significant advantages, given that they are managed by people having family bonds and expected to share the same values. Where such assumptions are confirmed in real life, one can indeed expect that the family managers, with the same values, practice the same methods and work hand in hand with each other.

Friction, if any, is reduced to a minimum, and no time is wasted in endless and unproductive discussions on strategies to be adopted and actions to be taken.

Other advantages of family businesses include:



Loyalty

Strong bonds within the family make it more likely for members to overcome challenges together during crises.



Reduced costs

During difficult times and in the longer term, family members may be more willing to make financial sacrifices to help the business navigate through hardships.

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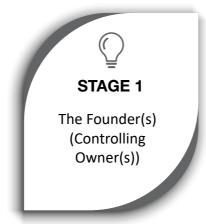


It is common knowledge that family businesses face numerous challenges. If they fail in rising up to those challenges, they may end up in being dismembered, with activities shared between opposing parties, or else wound down. Examples abound all over the world and in Mauritius of family businesses which have gone through the unenviable experience of distinct business activities being shared between different members of the family.

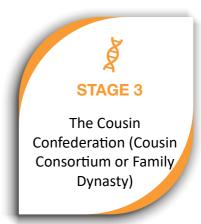
Managers appointed because of family links and without proper attention to the required and relevant competency are a burden to the proper running of the business. In addition, the failure to progress tends to give rise to a climate of incrimination amongst the family members, with individual sub-groups accusing each other for poor performance or results and claiming their fair share of whatever benefits are there for the taking.

Over time, a family business evolves and grows.

The various stages, per the IFC family governance (2018), comprise:







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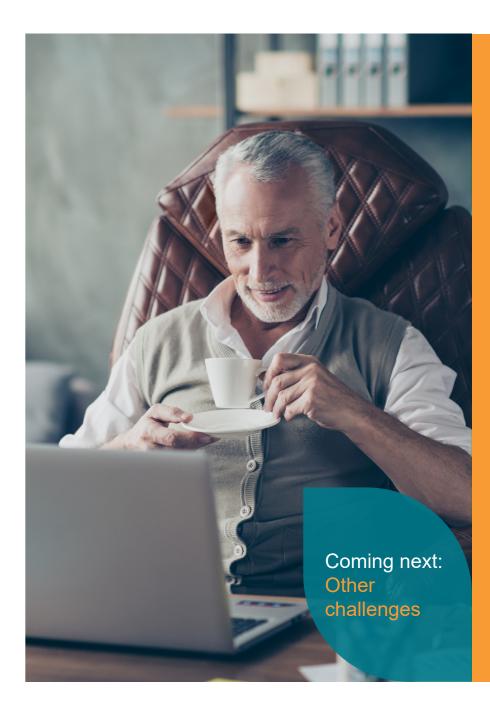


Challenges of family businesses (continued)

The founder members who launched the business will eventually give way to their offsprings and the latter's in-laws. Such import of new members into the family business, possibly with quite different approaches to management, can be an insidious cause of misunderstanding and friction. There may arise divergent views of how to manage the business and conflicts of interests, to ensure one's own position in the hierarchy on succession matters and profit sharing.

Proper succession planning is a good governance practice but is complex and sensitive. From the outset, the family Board would be well advised to lay down the principles of selection to ensure that, in the final analysis:

- (a) succession matters are not left too late in the day; and
- (b) new responsibilities are entrusted on the basis of relevant competencies and not family connections.



Challenges of family businesses (continued)

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Other challenges faced by family businesses may include:

Communications

Lack of regular meetings, communication and exchanges between family members.

Conflict Resolution

The need to resolve any conflict of interests before it is too late.

Acquiring and Retaining Talent

Difficulties of attracting good outside specialists for management and executive level positions and retaining them often due to serious culture clashes between newly recruited and long serving employees.

Salary and other compensation

Absence of clear policy and rules in place. Often, family members benefit from higher remuneration which may frustrate other staff members who are not relatives but make greater contributions towards the family business.

Mistrust from stakeholders and reduction in capital base

High concentration of ownership may result in lack of transparency. As a result, shareholders may be reluctant to invest capital into the business and creditors can be less willing to provide financial support to such a business.

Weakness in Internal Control

The control environment is mainly tailored to the needs of the family members and may not be adequate to support the business as it grows and becomes more complex over time.

Risk of legal noncompliance

Family businesses often maintain a minimum or no risk, legal compliance infrastructure. This may lead to noncompliance and governance issues in the business.

Risk of glass ceiling

Barriers may prevent nonfamily members from rising to the strategic positions despite having the necessary qualifications and experience.

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Governance solutions for a family business

For a family business to be successful, its objectives must be clearly defined, and its management properly trained to look after all the critical aspects of the day-to-day running of the operations, such as accounting, administrative, finance, procurement, sales and welfare. The Management team must be united in purpose and each team member must possess the required and relevant competency to work in the best interests of the business.

Finding ways to tackle the difficulties of a family business can be challenging. However, the separation of ownership from other dimensions of governance can to a large extent address a good number of issues. In addition, a proper governance framework needs to be implemented to articulate the vision and mission of the business and establish the strategy for passing on leadership roles (succession planning) and the key compensation rules. Moreover, there should be regular meetings, communication and exchanges between family members.



Relationship and trust vis-a-vis all stakeholders can be enhanced by empowering the Board to arbitrate between the family and outside shareholders. The Board should also be able to perform its management oversight role and help management to define and pursue the business's strategic direction to align the interests of all the stakeholders.

It is also important to manage family relationships between the business and the value of non-family members, at managerial and executive levels, by giving opportunities, promotions and remuneration based on merit. This creates a sense of belonging within the employees and will help retaining talent while enhancing the objectivity and independence within the business.

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Good governance practices are at the heart of the successful running of a business. They not only improve the overall performance, but also promotes trust among all stakeholders. It is important that family companies strive to follow them and to assist, PwC Ireland sets out their below key components:

- Governance framework A good governance framework should be established to ensure effective boards, transparency around roles and responsibilities and engagement with stakeholders.
- Governance documents This include the rules to govern the business, the rights and obligations of the shareholders/owners and the evidence for regulators/stakeholders of the good governance policies and procedures that are in place.
- Policies and procedures These should be implemented to ensure compliance with laws and
 regulations, reflect the business culture, provide guidance for decision-making, risk appetite
 and streamlining internal processes. They should be in line with the goals and strategies of the
 business. and ensure consistent work practices and implementation of established internal controls.
 Management should make sure they are easily available to all employees who should understand the
 way things should be done and how they are expected to behave.
- Board composition An effective Board needs to achieve the right balance of both family executive directors and independent non-executive directors. Diversity, expertise and gender should also be encouraged and incorporated because they lead to better overall decision making.
- Effective reporting to the Board Accurate, good and timely quality reports, will assist the Board to make well-informed decisions and develop business strategies for the short and long-term growth and overall sustainability of the business.

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Good governance practices (continued)

- Director/Board training Conducting governance seminars, conventions and workshops help the
 Board members to connect and form stronger friendships or relationships which facilitate problem
 solving. In addition, directors are kept on the same page with regard to governance issues which are
 considered, discussed and resolved.
- Agenda and minutes Given that minutes are the definitive record of a business's highest decision-making body, the Board should ensure that the quality of those minutes is of the highest standard and that they are clear, concise and free from ambiguity. At a minimum, minutes should include: the key points of discussions, decisions made and, where appropriate, the reasons for them, and agreed actions, including a record of any delegated authority to act on behalf of the business. Moreover, the Agenda should include AOB as an item to discuss any matter which any Board member would wish to raise.
- Board evaluation Formal, regular and rigorous Board evaluation of its own performance and that of its committees and individual directors should be encouraged.
- Standardized governance policies A good governance framework with policies should be established
 to ensure effective boards, transparency around roles and responsibilities and engagement with all
 stakeholders.

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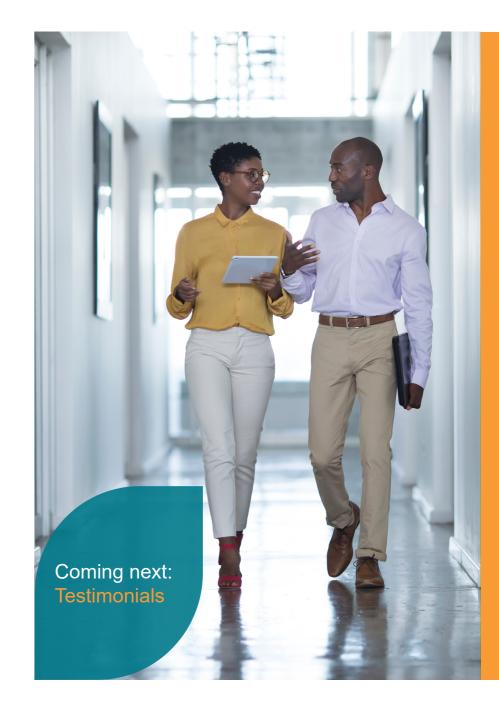




Governance in family business is crucial to ensure their survival. While they have many advantages, their numerous challenges need to be overcome. The vital importance of having proper good governance policies and procedures in place need to be emphasised.

Position Paper 6 has brought forward solutions to the various challenges faced and the best practices which can be applied by the family business in the Mauritian context. These include proper succession planning, resolving conflicts of interests and regular meetings, communication and exchanges between family members.

Overall, good governance is of paramount importance in order to promote fairness and have constructive discussions to solve problems in the best interests of the family business and its stakeholders.



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Testimonials



Cédric De Spéville Chief Executive Officer Eclosia Group

"Just like mechanically filling a compliance checklist won't make anybody a governance champion, being a family business does not necessarily mean that you have a long-term vision, a clear purpose and engaged employees. You still need to be transparent, professional, and put in place precise governance structures. But there is no doubt that being immune to shareholder pressure for short term returns is key to value creation for all stakeholders in the long run. Based on my experience this can only happen if there is constant – and structured - communication and exchanges between family members."



Dominique Vaudin
Corporate Affairs Director
Taylor Smith Group

"As long as a family business is in still within one or two generations, most of the shareholders can be present on the board and corporate issues remain manageable with transparent communication. When multiple generations are involved things can get more complicated, but I believe that regular family meetings and clearly defined 'rules' are the key to good Corporate Governance on which to rely on."

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