

Family Business Governance, Do you Leave it to Experts or take the DIY Approach?

By Professor Enrique M. Soriano III

In a family business, conflicts often times arise as the business starts to evolve. This can be brought about by the complexity of the industry, changes in business environment, or increasing number of family members who wish to participate in the decision making process.

In the absence of official titles or clear definition of functions, these conflicts may compromise the state of the business. If an established Corporate Governance exists, complications maybe prevented as a system of rules, policies and processes can help institute structure and improve operations of the business.



How can SMEs establish a Governance System for their business?

It is very tempting to try and find a DIY approach when it comes to sticky family issues (especially if budget is the main consideration) instead of seeking an external professional help.

The Internet provides a gamut of information on settling family disagreements DIY style - whether it be access to governance data or plainly using a "cut and paste" model to craft a charter or constitution for the business.

However, the advice online is not always accurate and sufficient. Governance is not "one size fits all". It is a process that considers the following factors:

- Size and complexity of the family
- Phase when intervention is needed
- Magnitude of the conflict
- Capability of the family members to transition from the old entitled and lackadaisical model to a process, vision-centered and governance driven family business.

If all these considerations are handled properly, a DIY approach may still succeed as long as the business' rules are exhaustive and strictly applied to all family members.

What do entrepreneurs need to keep in mind when developing Governance System?

For entrepreneurs who wish to pursue a DIY approach in setting up Governance, there are few things that must be put in mind.

- Don't DIY and act as arbiter in a hostile environment pitting two generations or two branches against one another.
- Don't DIY and impose compliance in an atmosphere of frayed nerves combined with a long history of animosity.
- Don't DIY and order suspension of an erring and entitled next generation member or termination of family member employee that caused prejudice and damage to the business.

Governance is simply too important to be left in the care of a family member who may be unfamiliar with the business and is not equipped to harmonize relationships and institutionalize control across generations.

Depending on the issue to be solved, a DIY solution may not always be effective. Some family businesses hire Consultants or Business Coaches to settle family issues to ensure that the process of governance becomes unbiased and will consistently be applied to all stakeholders without fear or favor. If done correctly, governance can become the family business' source of strength and longevity.

Prof Enrique Soriano is a World Bank/IFC Governance Consultant, Senior Advisor of Post and Powell Singapore and the Executive Director of Wong + Bernstein, a research and consulting firm in Asia that serves family businesses, family offices and family foundations. He was previously the Chair of the ATENEO Graduate School of Business in Manila and is currently a visiting senior Fellow of the IPMI International School, Jakarta.

He is an associate member of the Singapore Institute of Directors (SID) and an advisor to business families worldwide, a sought after governance speaker at conferences, and the author of many articles and publications, including two best-selling Family Business books (Ensuring Your Family Business Legacy 2013 and 2015).