The Pakistan

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Governance in Family Owned Companies

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All submissions received will be edited for clarity and space.

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Editor's Letter

Family businesses succeed through multiple generations by striving to be the best. As the world around us changes at an ever faster rate, it's important to inspire management teams to innovate to grow.

The ultimate challenge is achieving the balance between the traditions of the family's business with innovative ideas and business practices that will enhance the growth, profit and sustainability of the family's business. To develop a successful family business innovation programme, mind set of both management and family members will need to be addressed and challenged.

In Pakistan, awareness of the importance of good governance is prevalent among policymakers and standard setters. Regulatory bodies including Securities and Exchange Commission of Pakistan (SECP) and State Bank of Pakistan (SBP) issued a Code of Corporate Governance in 2002, most of which was relevant for listed companies. In addition, as a result of a public-private partnership, Pakistan Institute of Corporate Governance (PICG) came into being and has been active in the dissemination and implementation of corporate governance by organising seminars, conferences and knowledge groups to share knowledge related to good governance practices. In 2008, PICG drafted The Corporate Governance guide for Family-owned Companies which provides a Corporate Governance framework, based on internationally recognised principles, which are practical and adaptable for both listed and unlisted companies.

Being a dynamic organisation, The Institute of Chartered Accountants of Pakistan (ICAP) understands that the business and economic environments are changing at a very fast pace not only within country but also internationally and especially in regional markets of interest.

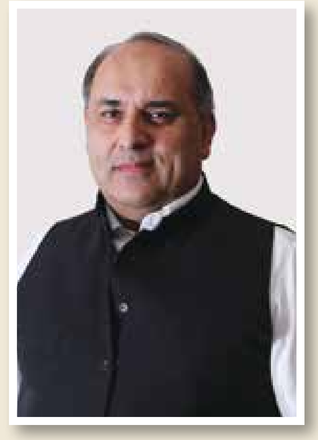
The mission of the Institute is to achieve excellence in professional competence and value to business and economy, safeguard public interest, ensure ethical practices and contribute to good corporate governance while recognising the needs of globalisation.

For us, corporate governance is essentially about leadership that is responsible, exercised with probity and conducted in a highly transparent and accountable manner.

Notwithstanding a few exceptions, I believe that corporate governance is heading in the right direction today. Dialogue between directors and shareholders has already highlighted the need to address weaknesses in certain companies' business plans and has become the needed catalyst for change when necessary. For this trend to continue, all directors must become vigilant in their supervision of management and must become alert to the tides of technological and competitive change that are sweeping the world.

Yacoob Suttar

President's Page



Family-owned businesses are the backbone of many economies around the world. Increasing growth and globalisation has brought many challenges for family businesses. The way you deal with them would lead to an ultimate success or failure. By adopting sound corporate governance systems, many of these challenges can be successfully tackled.

Corporate governance measures at the family and business levels provide good solutions to family ownership challenges and often are indispensable to the long-term success of the family business and peace in the controlling family, especially with succeeding generations. The concept of good corporate governance is vital for the continuity, success and sustainability of the family-owned businesses which in turn supports the economic growth. Some scholars argue that the paths of economic development and competition are based on the quality of the corporate governance rules.

The last few years have witnessed a sizeable increase in the number of unlisted companies, particularly family-owned organisations. Despite having a close network of owners/directors and the ability to make decisions quickly, family-owned companies are generally unable to sustain growth and have a shorter lifecycle. The principles of good corporate governance are as useful for non-listed companies as for listed companies. In countries like Pakistan, where a corporate governance code has been established for listed companies, these principles can be practiced by family-owned and non-listed companies as well. Some countries including Egypt, Turkey, Belgium, and Finland have also developed indigenous, voluntary corporate governance guides for non-listed, family-owned companies.

Creating mechanisms like family constitutions and family councils can manage corporate governance apart from the family whereas, good governance practices can assist in creating a more sustainable organisation by delineating methods for generational transitions and succession planning. Family-owned companies are traditionally either unaware of the general principals of good corporate governance, or work in a relatively less open environment. Promoting basic principles of good governance for family-owned companies is crucial in supporting the development of a strong economic sector. The sharp growth in such companies is fueling the growth of Pakistan's private sector, making good governance even more important for businesses towards their success and sustainability in the longer run.

The Institute of Chartered Accountants of Pakistan (ICAP) supports development and implementation of sound corporate governance practices and principles. ICAP, with other allied organizations, is working to increase awareness of the need for effective corporate governance practices and policies, to develop policy initiatives that would address corporate governance issues, to increase public awareness of corporate governance and shareholders' rights, to increase investor confidence through the introduction of good corporate governance, and to identify corporate governance best practices that can be applied in transitional economies.

Hafiz Mohammad Yousaf

Corporate Governance in Family Owned Companies in Pakistan

by Moin Fudda

Family-owned firms face a unique set of challenges that are rooted in an organisational structure that prevents these enterprises from attracting and retaining high quality human capital, obtaining lower cost debt and equity capital, and ensuring long term competitiveness and sustainability. The recent growth in family-owned enterprises, which are the backbone of Pakistan's economy, has created a demand for tools that help these companies be more competitive. Corporate governance practices provide a means for ensuring sustained company performance and embedding the values of accountability and transparency in organisations. Center for International Private Enterprise (CIPE) partnered with the Pakistan Institute of Corporate Governance

(PICG) and the Institute of Chartered Accountants of Pakistan (ICAP) to assess the needs of this particular sector and create the **Corporate Governance Guide for Family-owned Companies**.

Family-owned Companies in Pakistan

In the last decade, Pakistan has experienced a sizeable increase in the number of unlisted companies, particularly family-owned organisations. The rise in numbers of unlisted companies has fueled the growth of Pakistan's private sector while simultaneously increasing the importance of good governance for businesses. Currently, the Code of Corporate Governance applies only to companies listed on the stock exchanges. However, extending the concept of good corporate governance is vital to the sustainability of unlisted companies.

The controlling shareholders of a family-owned company belong to the same family and participate substantially in the management, direction, and operation of the company. Differing visions and objectives among family members can create conflicts and compromise the governance of the firm. The potential for conflict grows as the family structure shrinks or expands, and as the company changes, particularly with the advent of the second and third generations. Around only 15 percent of family-owned enterprises continue to survive till the third generation. Of those that do, 85 percent either disintegrate or completely vanish before the fourth generation takes the reins.

Challenges stem from the inability of family-owned firms to attract and retain high quality personnel, implement a succession plan, and raise capital. These factors negatively affect a company's long-term competitiveness and survival. In Pakistan, among the 22 families prominent in business in the 1950s and 1960s, only a few have managed to retain their prestigious position. The shortened lifespan of a family-owned company is mainly due to the following attributes:

- Clear lines of succession do not exist or are complicated by the importance of familial relationships.
- Loose organisational structures do not attract and retain quality human resources.
- Personal interest in the success of the business leads to an unwillingness to take risks such as expanding and diversifying into new business ventures.

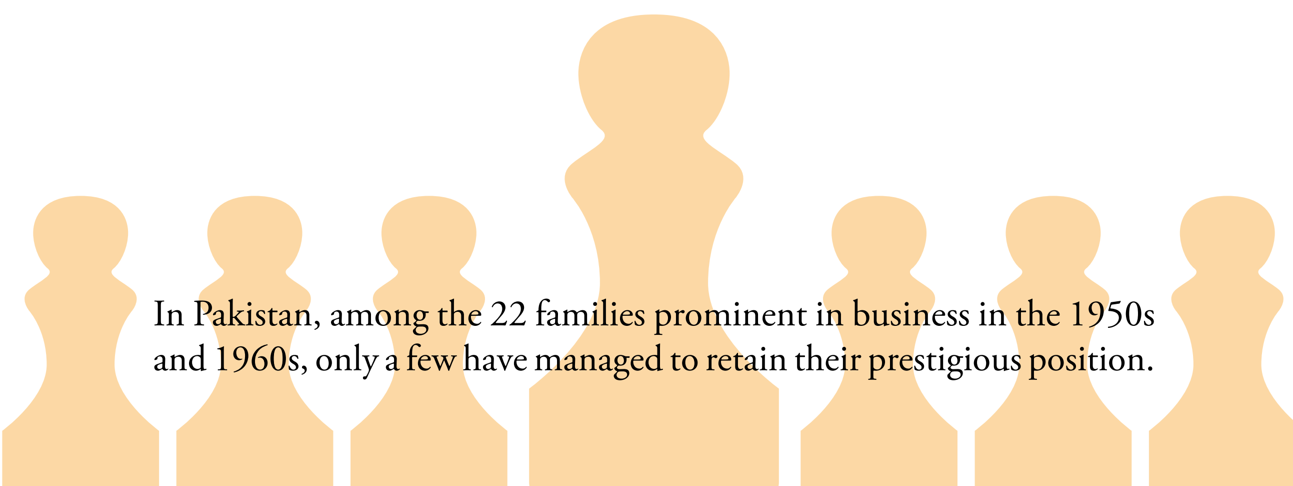
Benefits of Good Corporate Governance Practices

Instituting good governance mechanisms can alleviate problems, and help companies sustain growth and overcome short lifecycles. Good governance has a positive impact on the performance of companies and enables them to move into the next phase of the business lifecycle. As companies grow and become more conversant with good governance, their ability to attract capital from external sources also improves, allowing them to expand, diversify, and acquire other businesses in a sustainable manner.

The principles of good corporate governance are as useful for unlisted companies as they are for listed companies. In countries like Pakistan, where a corporate governance code has been established for listed companies, these principles can be practiced by family-owned and unlisted companies as well. Some countries – including Egypt, Turkey, Belgium, and Finland – have also developed indigenous, voluntary corporate governance guides for unlisted, family-owned companies.

Good governance directly addresses the issues facing family-owned companies by:

- integrating the strengths of family and business;



- improving shareholder relationships through effective communication and conflict management;
- systemising wealth distribution mechanisms;
- supporting growth and business diversification;
- managing ownership and leadership transitions;
- developing the next generation of managers, shareholders, and family members;
- improving credibility; and
- attracting lower-cost debt and equity capital.

In Pakistan, family-owned companies are often private, limited companies. Shares are held by a small group of people and there are limits on transferability. When this small group of people is a family in conflict, the company suffers from a lack of objective analysis on the part of independent directors. Creating mechanisms like family constitutions and family councils can manage corporate governance apart from the family so that the business does not suffer. Additionally, good governance practices can assist in creating a more sustainable organisation by delineating methods for generational transitions and succession planning.

Corporate Governance Guide for Family-owned Enterprises

While family-owned companies are the backbone of Pakistan's economy, these businesses are generally unaware of the principles of good corporate governance, or work in a relatively less open environment. Promoting basic principles of good governance for family-owned companies will support the development of a strong economic sector.

In November 2006, CIPE, in partnership with the Pakistan Institute of Corporate Governance (PICG) and The Institute of Chartered Accountants of Pakistan (ICAP), organised a seminar on corporate governance aimed at unlisted companies, which was attended by 150 participants including owners of family businesses. Encouraged by the high level of stakeholder interest, the three organisations hosted a roundtable on the subject, which was chaired by the chairman of the Securities & Exchange Commission of Pakistan (SECP). The participants decided to develop a Corporate Governance Guide for Family-Owned Businesses. A focus group, comprised of members of each of the organisations and representatives of family-owned businesses, was formed to develop a framework and prepare the guide based on stakeholder input.

After a round of deliberations, which took place at five focus group meetings, a framework was prepared. The framework was then discussed at two roundtables: one in Karachi, attended by stakeholders from Sindh and Baluchistan and another one in Lahore, attended by a large number of stakeholders from Punjab, Khyber Parkton Khawah, Azad Kashmir, Gilgit Baltistan, and Islamabad. These efforts led to a draft guide, which was then published on the three organisations' websites for two months to solicit stakeholder input. The comments and suggestions received were incorporated and the final version of the guide was approved in June 2008.

To mark the launch of the Guide, CIPE invited Abdul Razzak Dawood, the former federal commerce minister and chairman of the Pakistan Business Council, to be keynote speaker at an event where he shared his views with 100 business leaders of family-owned enterprises. Dawood manages his own businesses in the engineering, chemical, and power sectors and is chairperson of Pakistan's first family-owned multinational company. In his keynote address, Dawood observed that: "Corporate governance is necessary for the creation of human, intellectual, and financial capital. I am a strong believer that good corporate governance is not a cost, but rather a value addition, an investment in the future of the company."

The Corporate Governance Guide for Family-owned businesses is the first guide of its type in Asia. It provides, in simple language, a corporate governance framework,

The potential for conflict grows as the family structure shrinks or expands, and as the company changes, particularly with the advent of the second and third generations. Only around 15 percent of family-owned enterprises continue to survive till the third generation. Of those that do, 85 percent either disintegrate or completely vanish before the fourth generation takes the reins.

By establishing good corporate governance practices, companies are able to reduce conflicts, motivate employees to perform at higher levels, and strengthen accountability mechanisms - thus stimulating the company's growth and ability to profit.

based on the OECD's internationally recognised principles, which is practical and adaptable for both listed and unlisted companies. The publication contains recommendations applicable to enterprises of different sizes, ages, types of business, composition of shareholders and family dynamics, and is a resource for progressive, medium to large sized, unlisted, family-owned companies in Pakistan and internationally.

Adoption of Guidelines by National Foods

National Foods is an example of a family-owned company that has placed an emphasis on improving firm governance. It has maintained an annual growth rate of at least 20 percent since its founding in 1971. At first, National Foods was a spice business, but it now supplies more than 700 food products. The company has become a household name in Pakistan as a result of a successful marketing strategy combined with an array of quality products. Since its founding, National Foods has employed good governance and management practices, which established a good working relationship among the founders and prevented conflict. The first generation owners structured the organisation into departments and identified human resource functions, roles, and responsibilities. These undertakings provided the foundation for further professionalisation and increased competitiveness of National Foods.

Under the leadership of the second generation, National Foods increased the number of its shareholders and listed the company on the stock exchange. Corporate governance allows a greater level of freedom for professionals while providing them with standards to follow and key performance indicators to achieve. In order to grow a business, family managers need to delegate responsibility and authority to professional managers. Today, the company's governance structure is also complemented by the Code of Corporate Governance issued and enforced by the Securities and Exchange Commission of Pakistan. In the words of Abrar Hassan, CEO of National Foods, "corporate governance has helped National Foods with better access to capital and finance through investors by imparting confidence in the company through transparent practices."

Corporate governance guidelines address one of the major weaknesses of family-owned firms, which is successfully managing family succession. National Foods treats family employees and non-related employees equally and recruits leadership based on merit. Successful companies master the art of attracting the best and brightest people through a professional human resources team. National Foods' strategy centers on continuous recruitment of recent graduates and developing the company's reputation as a professional working environment. The family does not expect that the third generation will lead the company but instead encourages interested family members to play a role in business development.

National Foods' experience shows the advantages of listing large family businesses on the stock exchange. Listing a company creates exit mechanisms while freeing up capital to invest in other ventures. Becoming a public limited company has enabled National Foods to develop a culture and reputation that allows them to compete with multinationals. Adherence to the Code of Corporate Governance has also helped the board develop a vision of its roles and responsibilities.

In conclusion, National Foods has successfully undertaken the process of diluting ownership through public listing, divesting to new shareholders, and delegating management functions. Its experience exemplifies the positive outcomes that eventuate from transforming family owned enterprises into public limited companies. The adoption of these guidelines has guided the company on a path of growth and professionalisation.

Lessons Learned and Conclusion

Corporate governance is crucial for defining the respective roles of shareholders as owners on one hand, and managers on the other. By establishing good corporate governance practices, companies are able to reduce conflicts, motivate employees to perform at higher levels, and strengthen accountability mechanisms - thus stimulating the company's growth and ability to profit. Companies that adhere to a Code of Corporate Governance are better able to respond to the demands of an ever-changing business and political environment, with increased accountability and transparency. Above all, well-governed companies are best positioned in the global marketplace to attract more equity and low-cost debt capital.

Courtesy: Center for International Private Enterprise (CIPE)

Family Based Business

The most intractable family business issues are not the business problems the organisation faces, but the emotional issues that compound them.

by Mudassir Iqbal

Introduction

Family business is the oldest and most common model of economic and commercial organisation. A family-owned business may be defined as any business in which two or more family members are involved and the majority of ownership or control rests within a family. It is a commercial organisation in which decision-making is influenced by multiple generations of a family related by blood or marriage. Ownership may be distributed through trusts or holding companies but in any case the majority of ownership or control lies within the same family.

Challenges in Family-owned Companies

In family owned organisations, business revolves around two main separate but inter connected systems. The business, and the family. Business includes management also, which may be classified as a third circle depending upon the commercial size of the business activities involved.

As family businesses expand from their entrepreneurial beginnings, they face unique performance and governance challenges. The ways in which individuals typically communicate within a family, may be inappropriate in business situations. Likewise, personal concerns or interests may carry over into the work place to the detriment of the entity. Family businesses can go wrong for many reasons, including family conflicts over money, nepotism leading to poor management, and infighting over the succession of power from one generation to the next.

The most intractable family business issues are not the business problems the organisation faces, but the **emotional issues** that compound them. Separating your emotions from the business is not an easy task, especially if you are directly managing a family member. It is difficult for people to receive critical feedback from peers or their boss and even more difficult to receive it from someone they love.

It's important to complement the family's knowledge with the fresh strategic perspectives of qualified outsiders.

Cash Needs of a Family-owned Business

Maintaining family control or influence while, raising fresh capital for the business and satisfying the family's cash needs is an equation that must be addressed, since it's a major source of potential conflict.

To keep control, many family businesses restrict the trading of shares. Family shareholders who want to sell must offer their siblings and then their cousins the right of first refusal. In addition, the holding often buys back shares from exiting family members. Payout policies are usually long term to avoid decapitalising the business.

Because exit is restricted and dividends are comparatively low, some family businesses have resorted to generational liquidity events to satisfy the family's cash needs. These may take the form of sales of publicly traded businesses in the holding or of sales of family shares to employees or to the company itself, with the proceeds going to the family.

In order to grow, a small business must be able to use a relatively large percentage of profits for expansion. But some family members, especially those who are owners but not employees of the company, may not see the value of expenditures that reduce the amount of current dividends they receive. This is a source of conflict for many family firms and an added level of difficulty in making the necessary investments into the business for continued success.

Governance Challenges for a Family-owned Business

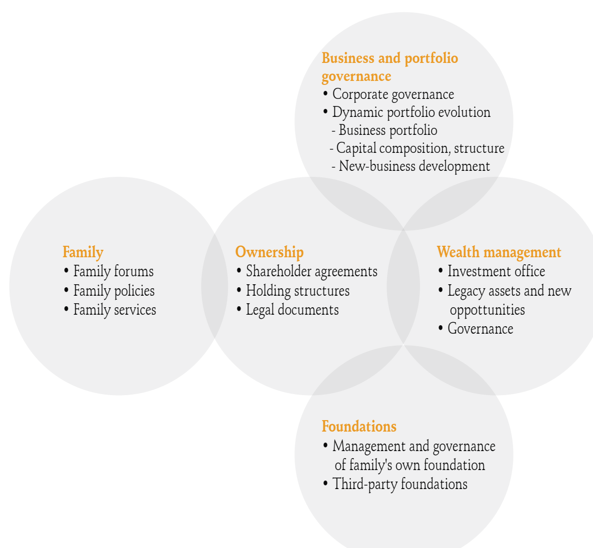
For a family business to be successful, five dimensions of activity must be working well and in synchrony:

Corporate governance measures at the family and business levels provide good solutions to family ownership challenges and often are indispensable to the long-term success of the family business and peace in the controlling family, especially with succeeding generations.

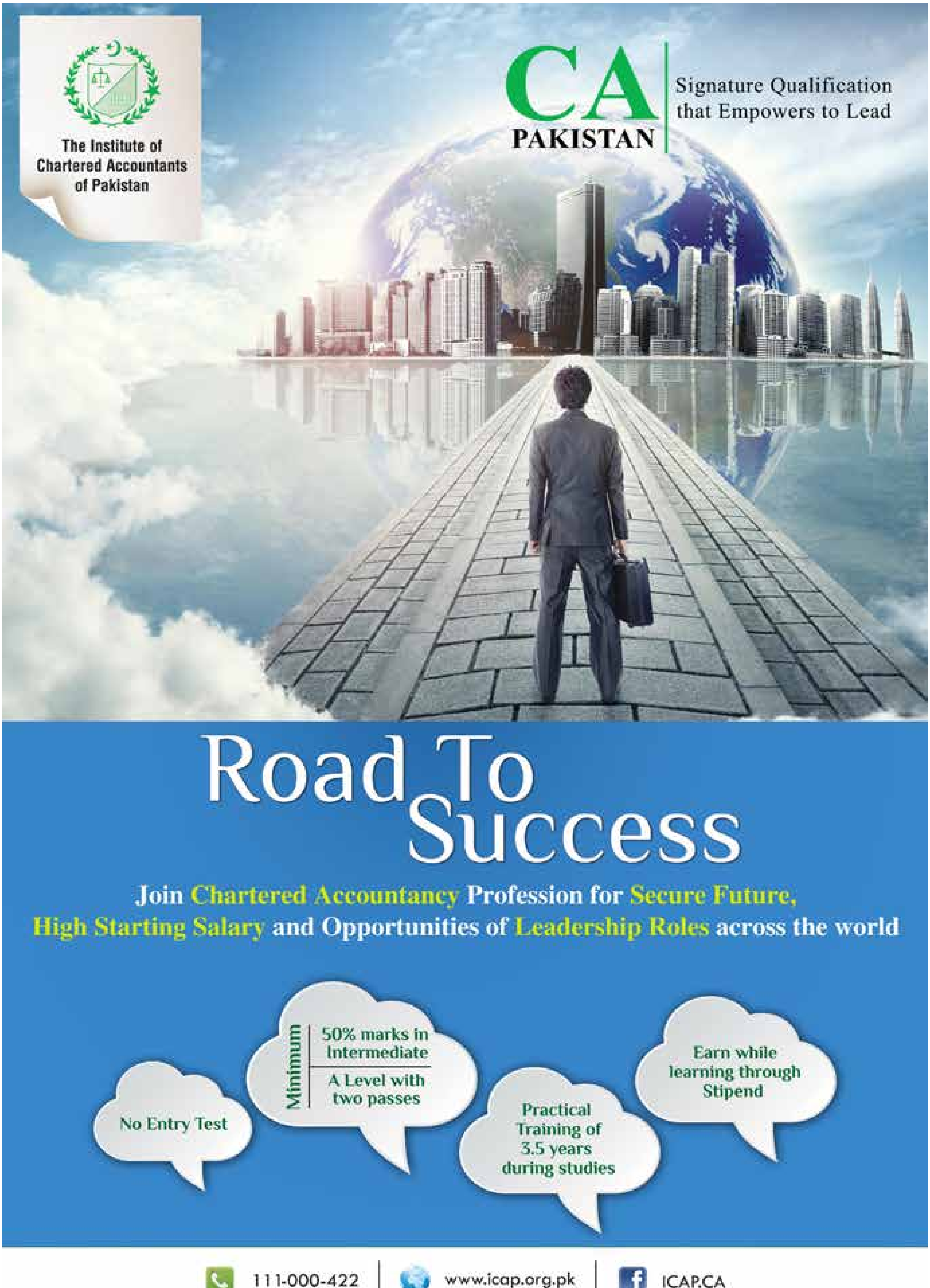
The main challenge in family business governance relates to the existence of an additional layer of relationship that the owning/controlling family brings to the business.

For shareholders this complexity includes understanding the various interconnections among the owning/controlling family members. These roles include:

- Family member/owners
- Family member/directors
- Family member/managers
- Family member/employees



Source: McKinsey & Co.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- Family members who are not shareholders, but are extended family and heirs
- Family members who are some combination of these roles

As per the research conducted by Risk Metrics Group on Institutional investors, the majority of investors say that corporate governance is more important today than it was a decade ago. They also say that it will become even more important in the next five years including for family businesses. Investors place a strong value on corporate governance, minority shareholder protection and transparency. As a result, they want family businesses to have structures and processes that are globally recognised as good practices without necessarily considering the family business governance specifics.

Family Governance Institutions

Table 5.4 Family Governance Institutions

	Family Meeting	Family Assembly	Family Council
Stage	Founder	Sibling partnership/ cousin confederation	Sibling partnership/ cousin confederation
Status	Usually informal	Formal	Formal
Membership	Usually open to all family members. Additional membership criteria might be set by the founder	Usually open to all family members. Additional membership criteria might be set by the family	Family members elected by the family assembly. Selection criteria defined by the family
Size	Small size since family still at founder stage. Usually 6–12 family members	Depends on the size of the family and membership criteria	Depends on criteria set up for the membership. Ideally 6–12 members
Number of meetings	Depends on the stage of the business' development. When business is growing rapidly, can be as frequent as once a week	1-2 times a year	2-6 times a year
Main Activities	› Communication of family values and vision › Discussion and generation of new business ideas › Preparation of the next generation of business leaders	› Discussion and communication of ideas, disagreements, and vision › Approval of major family related policies and procedures › Education of family members on business issues › Election of family council and other committees' members	› Conflict resolution › Development of the major family-related policies and procedures › Planning › Education › Coordination of the work with management and the board and balancing the business and the family

Source: IFC Family Business Governance Handbook

This table highlights the types of governance structures families might establish, depending on the stages of the family company's development. In addition to governance-related structures presented in the table, families might consider establishing other structures, such as family office, education committee, share redemption committee and career planning committee.

Composition of the Board

It's important to complement the family's knowledge with the fresh strategic perspectives of qualified outsiders. Even when a family holds all of the equity in a company, its board will most likely include a significant proportion of outside directors. Procedures for all nominations to the board insiders as well as outsiders differ from company to company. Some boards select new members and then seek consent by an inner family committee and formal approval by a shareholder assembly. Formal mechanisms differ; what counts most is for the family to understand the importance of a strong board, which should be deeply involved in top-executive matters and manage the business portfolio actively.

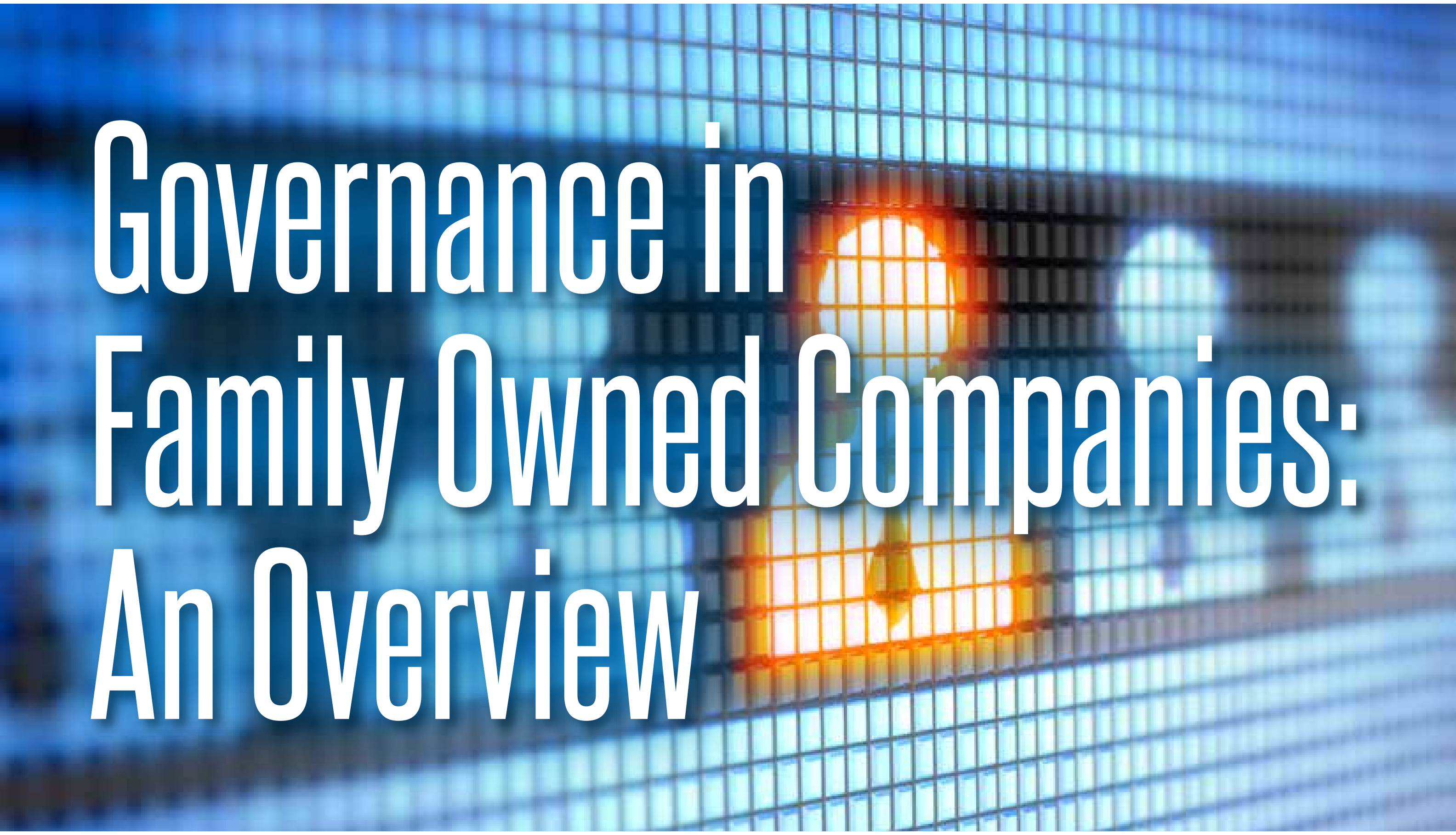
> Almost all companies start out as family businesses, but only those that master the challenges intrinsic to this form of ownership endure and prosper over the generations.

Conclusion

The rewards of a family-owned business are many as are the challenges. A successful business is often the best thing that can happen to a family. Almost all companies start out as family businesses, but only those that master the challenges intrinsic to this form of ownership endure and prosper over the generations. Today, some of the world's largest companies and best known brands like BMW and Walmart are deeply rooted family businesses. Family-owned firms, which make up 85% of firms worldwide, are important drivers of global GDP and job growth and this list includes the industry giants like Walmart, Ford, Saudi Aramco, Sun Pharmaceuticals, Samsung and the list goes on.

About the Author:
Mudassir Iqbal is a member of ICAP and works as a CFO of Tetley Pakistan Ltd, A JV of Tata Global Beverages Group and Lakson Group of Pakistan.

Governance in Family Owned Companies: An Overview



by Muhammad Asad Ali

Family-owned companies is defined as organisations in which the majority of ownership, control or shareholding lies within a family. Family owners participate substantially in the management, direction, and operation of the company.

Governance means establishment of policies, and continuous monitoring of their proper implementation, by the members of the governing body of an organisation. (Business dictionary)

Corporate Governance: The system of rules, practices and processes by which a company is directed and controlled. (Investopedia)

Role of Family Businesses

The following data is a measure of the impact and scope of family enterprises globally.

- Family firms account for two thirds of all businesses around the world.
- An estimated 70%-90% of global GDP annually is created by family businesses.
- Between 50%-80% of jobs in the majority of countries worldwide are created by family businesses.
- 85% of start-up companies are established with family money.
- In most countries around the world, family companies are between 70-95% of all business entities.
- 65% of family businesses are looking for steady income growth over the next five years.

Family-owned companies being the oldest and most influential form of business constitute the vital part of any nation's economy. In many countries, family companies play significant part in the economic growth and workforce employment. In United States the statistics reported by the University of Southern Maine's Institute for family-owned companies are astonishing: 35% of Fortune 500 companies are family controlled. Family businesses account for 50% of US gross domestic product (US $ 17.4 trillion). They generate 60% of the country's employment and 78% of all new job creation.

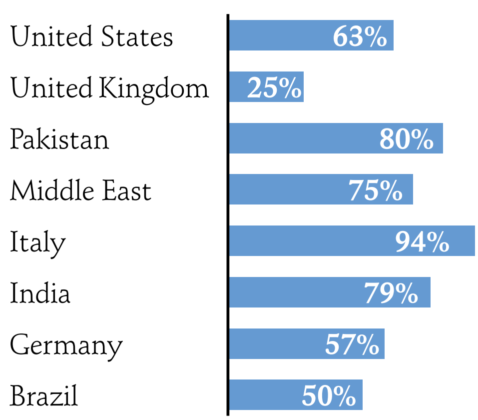
The data of the five principal family businesses existed on the list of Fortune 500 is presented below for further clarification:

Fortune Ranking	Companies	Family	Origin	Employees	Revenue ($ m)	Assets ($ m)	Profits ($ m)
1	Walmart	Walton	USA	2,200	476.3	203,706	16,363
8	Volkswagen	Porsche	GER	593	261.6	424,935	14,571
14	Berkshire Hty	Buffett	USA	316	182.2	526,186	19,872
19	EXOR	Agnelli	ITA	319	151.1	182,104	428
27	Ford	Ford	USA	187	146.9	208,527	3,187

Contribution to National Gross Domestic Product (GDP)

Family-owned companies contribute significantly toward GDP across the globe. The GDP is one of the primary indicators used to gauge the health and size of a country's economy. It represents the **monetary value of all the finished goods and services produced within a country's borders in a specific time period** (Investopedia). Graphically the point is illustrated below:

Contribution to GDP



Source: FFI

Family Business in Pakistan

Family business in Pakistan played a vibrant role in the development of Pakistan, from small to medium-sized companies that operated in multiple industries, contributing about two-thirds of industrial assets, 80 percent of banking and 79 percent insurance. Pakistan, in 1960-70, due to significant investments from influential families, had outperformed economically and almost all key economic indicators pointed to a fast rate of expansion. The growth rate in the gross national product had been nearly 6 percent a year for a decade and a healthy export performance of 8 percent a year had defied many predictions. Family businesses that played the prominent role towards Pakistan's GDP are:

Families	Assets (PKR m)
Dawood	558
Saigol	530
Adamjee	438
Jalil	420
Colony	325
Fancy	280
Valika	320

Source: Who owns Pakistan by Shahid-ur-Rehman

At present, Nishat, Hashoos, Habibs and Saigols, etc. are important players controlling family-owned companies and playing their role towards national economy.

Critical Issue: Why to Implement Governance

Most family businesses have a very short life span beyond their founder's stage and that some 95 percent of family businesses do not survive the third generation of ownership. This is often the consequence of a lack of preparation of the subsequent generations to handle the demands of a growing business and a much larger family. Family businesses can improve their odds of survival by setting the right governance structures in place and by starting the educational process of the subsequent generations in this area as soon as possible.

In Pakistan, family-owned companies are often private limited companies. Shares are held by a small group of people (maximum upto 50 members) and there are restrictions on transferability of shares. Due to conflicts and lack of good governance practices, the company suffers. The established set of practices can assist in creating a more sustainable organisation by delineating methods for generational transitions and succession planning.

In short, the shortened lifespan of a family-owned company is mainly due to the following attributes:

1. Lack of discipline and professionalism.
2. Informality or loose organisational structures.
3. Clear lines of succession do not exist or are complicated by the importance of familial relationships.
4. Personal interest in the success of the business leads to an unwillingness to take risks such as expanding and diversifying into new business ventures.

Good Governance Practices

Governance practices will positively impact every company's performance and long term viability:

1. Build a strong qualified board of directors and evaluate performance. Build a board of directors who are knowledgeable, independent, qualified, and competent and have relevant expertise, strong ethics, integrity, diverse backgrounds, and skill sets, as well as sufficient time to commit to their duties.

2. Define roles and responsibilities of the board, chair, CEO, and executive officers and establish clear lines of responsibility and accountability among them. Delegate certain responsibilities to director committees, such as audit and compensation committees.

3. Emphasise integrity and ethical dealing. Cultivate a general culture of integrity in business dealing and of respect and compliance with laws and policies without fear of recrimination. Implement policies for conflicts of interest, code of business conduct, and whistleblowing.

4. Evaluate performance and make principled compensation decisions. Set measurable performance targets for executive officers (including the CEO) and regularly evaluate them against those targets.

5. Engage in effective risk management. Set a process to regularly identify and assess the risks the company faces, including financial, operational, reputational, environmental, industry-related, and legal risks.

Crux

Being the crucial engine of national economy, it is in the best interest of the nation, that family-owned companies continued to play their role toward economic growth and employment generation. The existence and sustenance can be enhanced by encouraging the companies to implement the principles of good governance into working environment life that will ensure corporate success, economic growth and long term viability.

The general benefits for implementing the practices are:

1. Communicating the family values, mission, and long term vision to all family members.
2. Improved top level decision making processes.
3. Better control environments.
4. Systemising wealth distribution mechanisms.
5. Supporting growth and business diversification.
6. Managing ownership and leadership transitions.
7. Developing the next generation of managers, shareholders, and family members.
8. Ensure transparency and disclosure of accounting records.
9. Attracting lower cost debt and equity capital.

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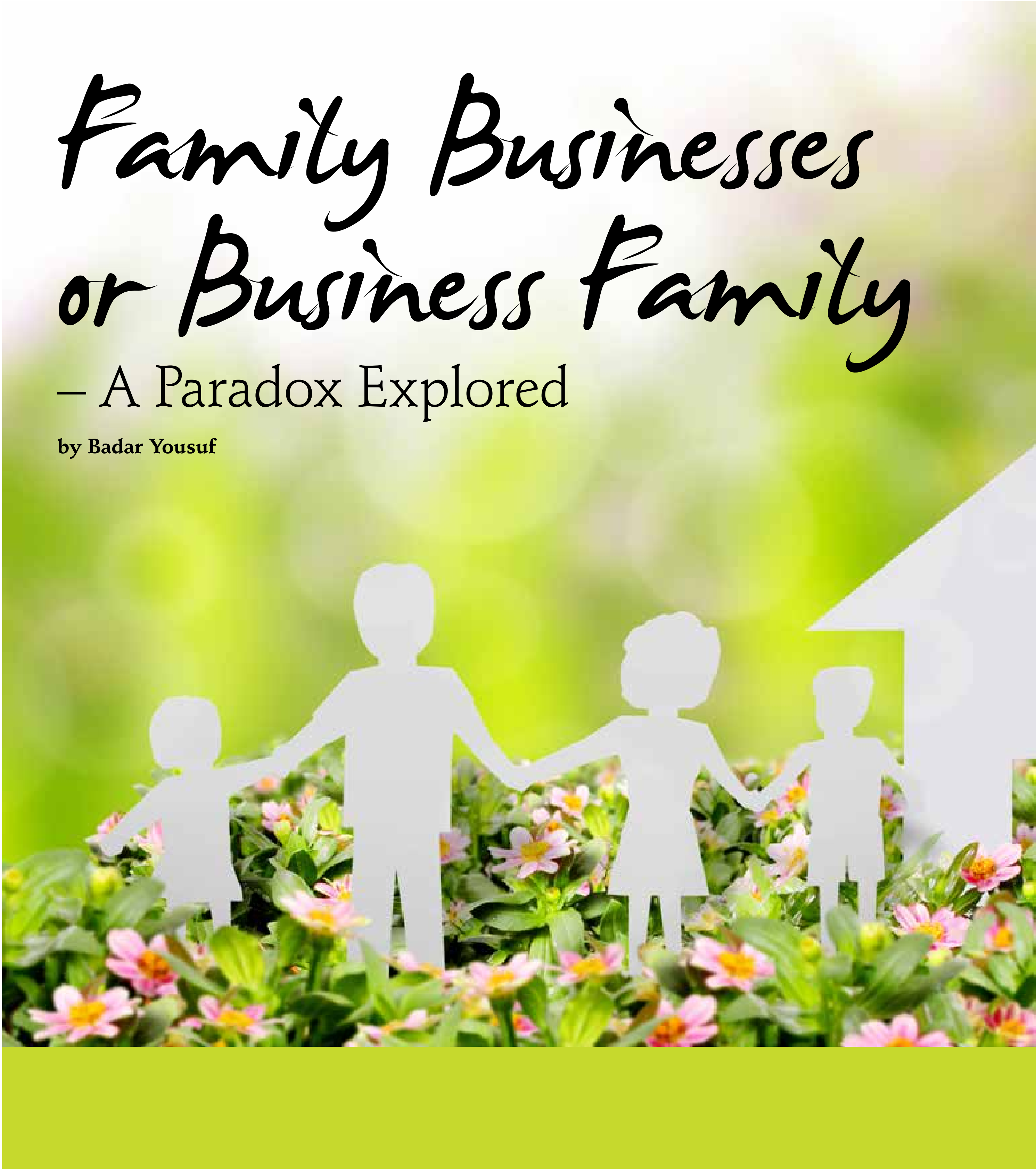
Family Businesses or Business Family

– A Paradox Explored

by Badar Yousuf



Family-owned business (FOBs) is the oldest and most common model of organisation. To many the term 'family business' connotes a small or mid-sized company with a local focus and a familiar set of problems, such as squabbles over succession. The economic importance of such institutions is often underestimated. It was not earlier than the 21st century that economists, academics and government policy makers started realising the potential of this segment and today, it has been recognised as a prime source of wealth creation and employment in the global economic landscape. According to an analysis by Boston Consulting Group, FOBs account for more than 30% of all companies with sales in excess of USD 1 billion. Another research estimates that 40% of the Fortune 500 are family controlled. Samsung, Ford, Walmart, Toyota and Tata Group are just a small list of names making big impacts in the global market, whereas National Foods, House of Habibs, Bestway group are some of the examples of Pakistani family-owned business which are growing worldwide.

According to new research by Barclays Bank, family-owned small businesses in Britain are among the fastest growing of all enterprises in the country, and will contribute more than £200 billion a year to the UK economy by 2018. Currently, it has more than two million family-owned businesses and that first-generation companies are growing sales at a rate of 22% a year, generated revenues of £540 billion in 2013 and that this figure is set to hit £661 billion by 2018. Daunting these enormous stories of success is the flip side where research show that out of 100 FOBs only 15 companies would survive till the third generation. The statistics deteriorate further and out of these 15, 13 dis-integrate as they enter the fourth generation of family owners.

The answer to the bi-polar reality of FOBs lies in the study of the unique mode of business of such institutions. The article will focus on understanding these unique traits alongside identifying those common issues which result in the fall of an empire that go through the hands of generations.

What is family-owned business?

Family-owned companies are characterised as organisations in which the shareholders belong to the same family and participate substantially in the management, direction, and operation of the company. In such companies, the voting

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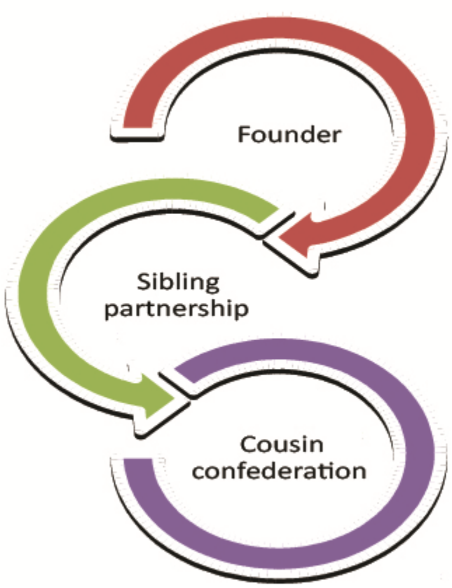


majority is in the hands of the controlling family, including the founder(s) who intend to pass the business on to their descendants. Usually in such organisations, one or more families linked by kinship, close affinity, or solid alliances hold a sufficiently large share of risk capital to enable them to make decisions regarding strategic management.

Growth of a family-owned business

There are several models that describe and analyse the different stages a family business goes through during their existence. Among them, the following basic three stage model summarises the evolution in a precise and apt manner:

Stage 1:

Founder

This is the initial step of the business' existence, where the business is entirely owned and managed by the founders. Most of the founders confide into limited number of advisors and/or associates, hence take major decisions on their own. Strong commitment and a simple governance structure come out as the key characteristic of this stage. The survival of the business into the next stage is dependent on succession planning and the ability of the founders to be able to find and groom the next leaders of the company.

Stage 2:

The sibling partnership

This is the stage where the second generation of the family gets involved and the ownership and management is transferred to the children of the founders. As the involvement of more family members start, governance issues tend to put their heads up. It is at this stage that development of business processes, procedures becomes the necessity for the smooth operation of the setup. Succession planning again remains the focal point stringing the survival of the company.

Stage 3:

The cousin confederation

As the third and fourth generations enter the business arena, the governance and management of business issues become a complex matter. Coming from diverse family and educational backgrounds with different interests and ideas of the business, creating a harmonised environment of management is a difficult ordeal. Clearly, the direction of the business and the company can hang in the air with so many conflicting opinions influencing the same. Hence, governance, primarily of the family, is the key issue to be managed at this stage.

Why are FOBs making a big impact?

Conventional wisdom holds that the unique ownership structure of family business gives them a long term orientation that traditional public firms often lack. According to a research involving 149 publicly traded, family controlled businesses with revenues of more than USD 1 billion, family-owned businesses do not earn as much money as companies with more dispersed ownership structure during good economic times. However, when the economy slumps these FOBs outshine their peers. The fact is corroborated by a Family Business Survey conducted by PwC in 2014 which identified that 65% of family businesses reported growth in the last twelve months. The reason is primarily focus of family businesses on resilience than on performance. These businesses are willing to sacrifice the excess returns during the good times to increase their odds of survival during tough times. According to Harvard Business Review 2012 and later published by Boston Consulting Group as 'Own the Future, 50 Ways to Win', the key seven differentiating traits in FOBs are as follows:

As the third and fourth generations enter the family business arena, the governance and management of business issues become a complex matter.

1. **They are frugal in good times and bad**
   "The easiest money earned is the money we haven't spent," well defines the approach of a family-owned business. While businesses use various approaches to instigate the sense of ownership into management, family-owned businesses inherit the trait and hence do a better job at keeping their expenses under control. Such controlled measures automatically enable these firms to face the bad times better than other organisations.

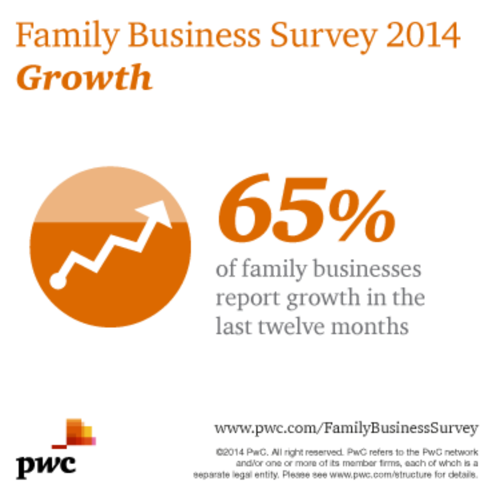
2. **They keep the bar high for capital expenditures**
   Since it's the owner's money being invested by the owner himself in projects managed by the owner, a family business is especially judicious when it comes to capital expenditure. For family businesses an investment should not only be offering good returns, it should also be outshining other projects, hence keeping the spending under the company's self-imposed limits. On the flip side, since investment is restricted to strong projects, these businesses miss out opportunities of diversification in good times hence the under performance.

3. **They carry little debt**
   While businesses rate debt as a source of financial leveraging family-owned businesses usually associate debt with fragility and risk. Many FOBs are cash rich and less leveraged than their peers, holding on to their equity and not being beholden to a non-family investor.

4. **They acquire fewer and smaller companies**
   Family businesses are not energetic dealers and usually prefer organic growth. Any expansion instigated by these businesses either are close to their core existing business or relate to simple geographic expansions.

5. **Many show a surprising level of diversification**
   Studies show that family-owned businesses are far more diversified than their peers. In the study reported by Harvard, 46% of the companies under research were highly diversified, but only 20% of the comparison group were. This diversification becomes a key way to protect the family wealth.

6. **They are more international**
   Family-controlled companies have been ambitious about their overseas expansion. They generate more sales abroad than other businesses do; on average 49% of their revenues come from outside their home region, versus 45% of revenues at non-family businesses. But family businesses usually achieve foreign growth organically or through small local acquisitions—without big cash outlays.



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7. **They retain talent better than their competitors do**
   The leaders of family companies extol the benefits of longer employee tenures: higher trust, familiarity with coworkers' behaviours and decision making, a stronger culture. Employee turnover in family business was only 9% as compared to the non-family firms.

Why FOBs fade away?

The question that pops to mind at this time is if such businesses are in such dominating position in the global economy, what is the reason that only two out of 100 businesses succeed till the fourth generation? Various studies have shown numerous factors negatively affecting the sustainability of these businesses.

The first and the foremost factor taking the stats of downsides of the business to such alarming extent is the unique structure of business itself – the family. Till the point businesses are in the founder stage of business life cycle, this issue never arises. However, as the next generation is knocking the door to enter the business, apprehension over the ability of these new entrants to manage it in a professional manner with the same zeal and enthusiasm with thoughts of preventing founder's own stake in business start to affect the intention of the decisions. There are very few organisations that work on the facet of succession planning and where entry of a family member into the management has criteria more than just being the inheritor. Survey conducted by PwC in 2014 highlights that only 16% of family business have a discussed and documented succession plan in place. Further, there are few who are able to segregate business from family and who have a formal mechanism of dealing with family conflicts. Such factors automatically affect the decision making and ultimately the future of the business itself.

According to Center for International Private Enterprise (CIPE), the shortened lifespan of a family-owned company is mainly due to the following attributes:

- Clear lines of succession do not exist or are complicated by the importance of familial relationships.
- Loose organisational structures do not attract and retain quality human resources.
- Personal interest in the success of the business leads to an unwillingness to take risks such as expanding and diversifying into new business ventures.

Family-owned, listed companies are the backbone of Pakistan's economy. However, these companies are traditionally either unaware of the general principles of good corporate governance, or work in a relatively less open environment. Promoting basic principles of good governance for family-owned companies is crucial in supporting the development of a strong economic sector.

In early 2008, Center for International Private Enterprise (CIPE), Pakistan Institute of Corporate Governance (PICG) and The Institute of Chartered Accountants Pakistan (ICAP) worked extensively with the stakeholders and developed a Corporate Governance Guide for Family-owned Companies.

The guide provides a corporate governance framework that is practical and adaptable for both listed and unlisted companies.

FOBs are flag bearers of their own unique management style and business culture. Often this is the reflection of the owner's philosophy and management aspirations. Though it is a unique differentiating trait of such organisations which speed up decision making, after a certain point, this unique culture prevents the organisation from its transformation into an institution. A recent survey by PwC on family business highlights that over 40% of the respondents agree that professionalising the business would be a key challenge over the next five years. The introduction and integration of professionalism is dependent on a number of factors including:

a. Founder's commitment to transfer their power and authority to the managers
b. Stage at which the founders commit to transfer their powers
c. The maturity and intention of the managers to embrace this added power and responsibility

Usually factor (c) is found in organisations where professionals are hired by the organisation. The management is willing rather, at certain times, frustrated with the lack of intentions from the owners. However, there are instances when the case is vice versa. Hence, striking a fine balance of these factors is quite difficult.

Another major factor that prevents organisations from professionalising the business is the attraction and retention of quality managers. For argument's sake, even if factors (a) and (b) above are present in the owners of the business, if the quality of the management is not up to the mark, transfer of power is certain taking a fall in a hole. It is usually the informal culture or the general perception of management style of such organisation that deter fresh and experienced professionals from seeking a career in such organisations. Although such organisations present a more hands on experience of the industry, the vulnerability of its existence and sustainability is a major negative that deters potential employees.

Innovation in product ranges and ways of operation is also becoming a major area of concern for family business. Over 72% of respondents in the survey conducted by PwC highlight the fact that they need to be working on innovation and harnessing of digital means to stay abreast of the competition. This issue is inevitable where ownership and management involves the same set of mind and where professionals are apprehensive in joining the organisations or are not given the power of decision making.

Conclusion

The unique feature of the businesses is already showing its significance in the world in terms of its economic dominance throughout the world. Sustaining the business and increasing the mortality rate of such institutions is dependent primarily on the ability to professionalise the family and the firm, structuring business succession plan, following corporate governance guides, etc. Doing one and not the other will only create tension and possible conflict, especially if outside managers are brought in at executive level. Professionalising the

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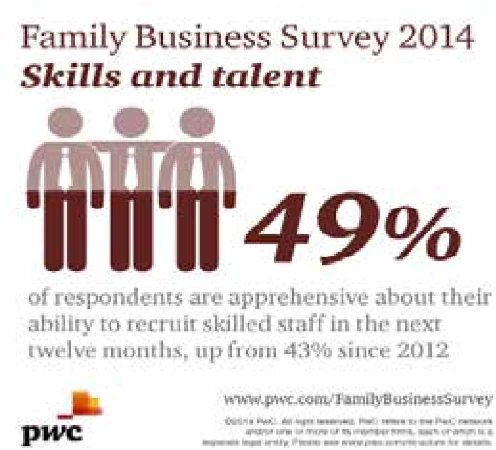
Family-owned, listed companies are the backbone of Pakistan's economy. However, these companies are traditionally either unaware of the general principles of good corporate governance, or work in a relatively less open environment. Promoting basic principles of good governance for family-owned companies is crucial in supporting the development of a strong economic sector.



family is much harder, and will take longer, and it's understandable that many family firms are shying away from tackling an issue so fraught with potential conflict. But it cannot be postponed indefinitely. The choice is to do it slowly and painfully, or quickly and painfully. But the rewards will be significant for those who do seize this challenge, while the risks of not doing so will increase with time, especially as it's likely that the failure rate of the family business sector will rise as the pace of change in the wider economy accelerates.

Professionalising the family will ensure that family members become effective owners, whether or not they are actively involved in managing the firm. It will make it possible to reinvent the business, by taking the objective perspective of the informed investor, rather than falling prey to decisions dictated by emotion or history. We have already seen, in the International Group case study, how liberating this approach can be. By professionalising the family, the sector as a whole could reinvent itself, and evolve from a model based on a 'family business' to one driven by a new vision of the 'business family'.

Family Owned Businesses

Not a Family Piggy Bank

by Khizar Ayub Khan

Being an Associate member of The Institute of Chartered Accountants of Pakistan (ICAP) and also a family member of a family-owned organisation, I have been working on this topic since the last five years and have attended many local and foreign seminars and conferences and have concluded that either its Pakistan or any other country in the world, there are more or less exactly same problems in all the family-owned organisations worldwide.

One thing should be very clear in mind that the elder generation is the one who will either make it or break it. They first have to realise the importance of governance in family-owned companies. They should prepare a proper family constitution that should cover family itself and the family business also. Family constitution may not be the same in every case as every family might have different values and traditions. Young ones should understand that their elders are way more experienced and groomed and they understand the family business much more than them and similarly elders should also admit that young ones may also have more modern and technological knowledge.

Family business should be about **sharing** the power, knowledge and experience in the right way and direction.

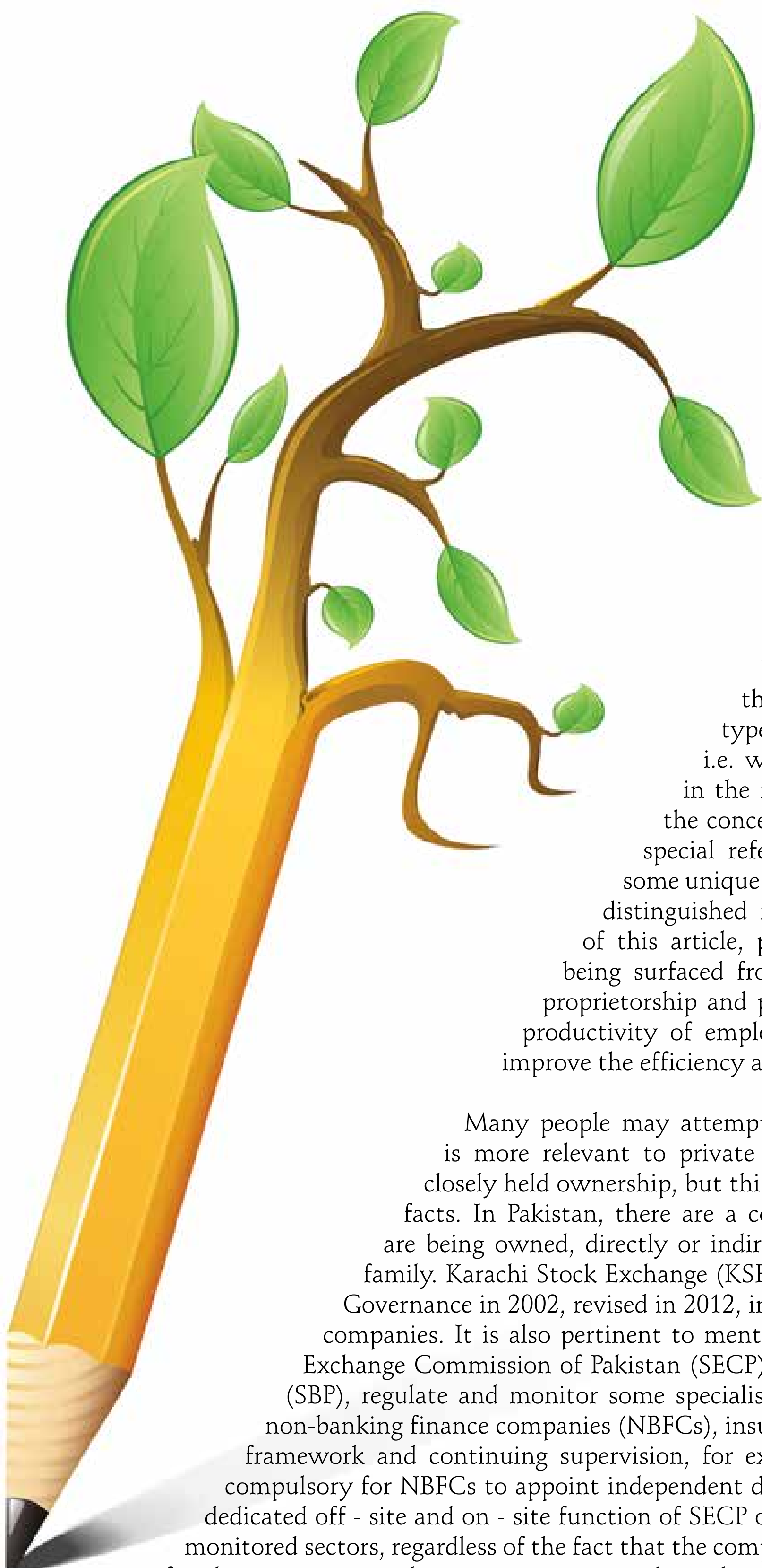
It should be kept in mind at all times that the family company is a separate legal entity and shouldn't get affected by any family issues and it should never be considered as a family piggy bank. Whatever interaction takes place between the family members, it should be via proper Standard Operating Procedures (SOPs) and under the instructions of family constitution. Everything should be clear and transparent.

Another important point is the education of the new generation. It would be good if the elders do a gap analysis of business to evaluate the future requirements at departmental levels or organisational levels. For instance, elders may feel that the company will need a qualified accountant or a lawyer from the family members in future. With this they may even guide the younger ones to choose the profession for themselves if they are attracted to that qualification. However, the core line of the business shouldn't be neglected and more and more good resource for the core technical line of the business should come up in the new generation.

One of the major problems that will arise will be how to match the expectations of new generation in remuneration, perquisites and designations that may be different in qualification, skills, experience, intelligence, hard work etc. with each other.

Finally the most important matter to deal with is how to enter a new generation member into family business, how to train him/her and how to settle their remuneration and perquisites. There may be several ways to deal with this but whatever is considered should be discussed with the new generation and should be finalised with the mutual consent of all the related parties.

With the entry of new family members, the sharing of other individuals will get diluted. To keep the interest of all the members sharing the pie, the pie size should be increased with the time. For instance, if three persons were first sharing the profits then to keep their monetary interest same, business should grow with an x percentage so that the new members too get a reasonable financial interest and they keep themselves interested and motivated to the Family Business. Elders should realise that they can never get more sincere and motivated workforce other than their own family members and the younger ones should also realise that no one else can teach/guide them better other than their own elders.



Governance Issues in Family Owned Businesses

by Mohammad Noman Akhtar

Introduction

The issue of family governance is not new to the corporate world and it has relevance to every type of business irrespective of its legal structure, i.e. whether it is sole proprietorship, partnership or in the form of incorporated companies. In the article, the concept of family governance has been covered with special reference to incorporated companies which have some unique characteristics, most importantly the ownership distinguished from management. However, different aspects of this article, particularly recommendations to handle issues being surfaced from family governance may be applied to sole proprietorship and partnership businesses, in order to enhance the productivity of employees, align the structure of organisation and improve the efficiency and effectiveness of operations.

Many people may attempt to perceive that the family governance issue is more relevant to private company or public unlisted company due to closely held ownership, but this perception is not based on ground realities and facts. In Pakistan, there are a considerable number of listed companies which are being owned, directly or indirectly, and controlled, by members of the same family. Karachi Stock Exchange (KSE) Limited has already issued Code of Corporate Governance in 2002, revised in 2012, in order to address the governance issues in listed companies. It is also pertinent to mention that the corporate regulator, Securities and Exchange Commission of Pakistan (SECP) and financial regulator, State Bank of Pakistan (SBP), regulate and monitor some specialised sectors very closely such as banking sector, non-banking finance companies (NBFCs), insurance sector etc., through specialised regulatory framework and continuing supervision, for example, NBFC regulatory framework makes it compulsory for NBFCs to appoint independent directors, the compliance of which is checked by dedicated off - site and on - site function of SECP on a continuous basis. Therefore, in such closely monitored sectors, regardless of the fact that the company is listed or unlisted, the issues pertaining to family governance are less severe as compared to other sectors.

Structure and Characteristics of Family-owned/Controlled Companies

Family-owned/controlled companies refer to those companies which are owned by members of the same family through significant shareholding, directly or indirectly, and controlled by it through major representation on the board of directors and, in most cases, run by family members as chief executive officer or other senior positions. These companies may have a complex and unique structure. Some family members are shareholders of the company, some are directors of the company and some family members may occupy the key positions of the company and may be involved in the management of the company while some family members may be employees of the company. Some family members/friends who are neither shareholders nor employees, but owing to high repute and image in the family or otherwise being close with major shareholders, may, directly or indirectly, be involved in the management of the company. The decision may be taken in the drawing rooms by the family members rather than in the board meeting through formal decision making process involving the actual managers. In making conclusions, ego may prevail over merit. The question of maintaining family relationship in priority to business relationship arises.

Moreover, every family enjoy some unique characteristic whether positive or negative, like honesty, boldness, aggressiveness, humanity, etc., which may be reflected in the strategy, processes, and decisions regarding the affairs of the company. The obvious conclusion one can make, keeping in view the complexity of family-owned company, is that such a company will present a lot of challenges in the governance. Different researches made in this regard reveal that unique features of family-owned companies have enabled the companies to add value to the stakeholders.

Positive Aspects of Family-owned/ Controlled Companies

Mostly, in the initial phase, the family-owned businesses have better chances of success due to family commitment and unified goal of both family and business. The direction is clear and decision making is straight forward. Further, the controlling shareholders in family-owned business may have long term view in decision making. Instead of solely paying attention to short term performance, they are likely to have strategic focus on the business, responding to the changing market conditions promptly and at the same time, addressing the concerns of the stakeholders

The next generations in family-owned business have to carry high repute and image of their predecessors.

(like timely payment to creditors) effectively. The next generations in family-owned business have to carry high repute and image of their predecessors, who may be available to provide sense of direction to the business and to transfer values and business knowledge to their next generation. All these aspects translate into value creation and addition for the stakeholders of the businesses.

Governance Issues in Family-owned Companies

In spite of providing some opportunities, the complex structure of family-owned business is also bound to create a lot of governance issues especially when the size of the business is growing and its management is being transferred from founders to next generations. Mixing of family and business relationship in the company affairs, intricacy in the family, conflict between family managers and family shareholders (non-managers), relationship between family shareholders and non-family shareholders, and the difference in approach toward business between family manager and non-family professional managers are the main sources of governance problems.

i. Mixing of family and business relationship

In family-owned businesses, mostly, the separation between family relationship and business relationship becomes difficult. Family relationship has to be managed, often, in priority of business relationship, causing accountability problem. For example, chief executive officer (CEO) may take leverage of being son of a director, who is also a chairman of the board. Even in middle management, similar instances may be witnessed if family members are employees of the company.

ii. Intricacy in the family

Along with the growth of business, the family also grows with the addition of new members, shaping into complex structure. The common goal of the business which was in line with the objective of the family at the initial stage of business, divides into different conflicting subsets according to preferences of the members of the family. When the business is in the hands of third or fourth generations, the situation becomes worse as the hierarchy in the organisation may not necessarily match with that of family and there might have been more than one center/focal point of the family due to its division into different sub-families. The competition of resources within the family intensifies, which initiates war for sharing of power in the organisation among the family managers. Conflicts, misunderstanding or tension among the family members are brought onto the floor of companies, which affects business adversely and causes frustrations for other shareholders.

iii. Conflict between family manager, shareholders and family non-manager shareholders

Financial conflict between family manager, shareholders and others members of the family who are shareholders but not involved in the management (family non-managers) also presents governance issue. Family non-managers are only entitled for dividend while family managers enjoy salaries and other allowances from the company along with dividend. In case of no-dividend or dividend below the expectations of family non-managers, the rewards being received on account of management by the family managers becomes questionable. The family non-managers may consider that their rights in company as shareholders are being compromised at the cost of the interests of family managers, while on the other hand, family managers may have view that they are not being rewarded in line with the contribution they are making. So, this type of conflict may be generated from either side and needs special attention for its resolution.

iv. Relationship between family shareholders and non-family shareholders

The non-family shareholders may have diverging interests and approach towards business as compared to family shareholder. Even if they are represented on the board of directors, the decisions on the board meeting is likely to be influenced by family members who would be greater in number and harmonised due to being related with the same family. The appointment of independent and professional chief executive officer may be one of the wishes of non-family shareholders, which is least likely to be fulfilled. Further, the access to company information might be restricted for non-family shareholders as compared to family shareholders. The non-family shareholder may have the view that they are not being treated equitably and, therefore, the question of "fairness" arises in such family-owned companies.

v. Conflict between family managers and non-family professional managers

Conflict between family managers and non-family professional managers is most likely to arise in the way in which business affairs are conducted, decisions are taken, human resources are managed, internal control system is deployed, and the system of accountability is implemented and so on. Family managers may not be willing to share power with non-family managers. This is one of the most critical areas in family-owned business. There may be no formal decision making process. The family managers may not believe in the organisational structure and reporting lines within the company. They may rely on key personnel rather than on process and procedures. There may be no system of internal control. If they have any control environment in the company, it might have been accustomed to their wishes and circumvention of internal control

might be usual routine for them. Internal audit function, compliance function or risk management function may be considered as only cost centers for the family managers. The business might have been conducted without any documented policies. There may be no proper reward system, appraisal system and hiring mechanism. The accountability system for family managers and non-family managers may be different. In such cases, it would be difficult for family-owned companies to hire and retain qualified professionals.

vi. Other issues

In addition, there are other several aspects which pose additional challenges in the governance of family-owned business. Sometimes, next generations join the family-owned business on the wishes and under the pressure of their ancestors. Sometimes, the next generation is brought into business and given key positions at very early age of their life. Consequently, their decisions in the business may reflect the element of immaturity, emotions and ill-seriousness. In family-owned companies, often family shareholders are unable to understand the basic characteristic of company, i.e. separation of management from ownership and therefore they, being shareholders of the company, unnecessarily interfere in the company affairs, causing nuisance in the governance of business.

Recommendations

The governance issues vary from company to company and customised solutions are required to resolve the inherent issues. However, in general, following measures may be taken to minimise the governance issues.

- The more peace in the family, the less likelihood of conflicts between the family members and governance issues.
- Appointment of as many independent directors on the board of directors as possible.
- Representation of different classes of shareholders (including institutional and minority) on the board.
- Composition of different committees of board in line with critical function of the committee like audit committee, human resource committee, investment committee, risk management committee.
- Appointment of independent and professional chief executive officer.
- Appointment of independent chairman of the board of directors.
- Development of a logical and formal organisational structure and clear lines of reporting.
- Clearly defined roles and responsibilities of managers.
- Decentralised decision making and delegation of authority to appropriate management level.
- Development and effective implementation of major policies, manuals and Standard Operating Procedure (SOPs) to govern each critical function of the company. Recruitment mechanism including family employment policy will be of additional importance in family-owned companies.
- Development of market competitive remuneration system and impartial, fair and transparent appraisal to be introduced.
- Establishment of independent internal audit, compliance and risk management function , keeping in view the size of the business and family.
- Major focus on training program of employees and succession planning.
- Compliance with applicable regulatory framework.

Most of the recommendations discussed above are already part of Code of Corporate Governance 2012 which is applicable on listed companies. The public unlisted and private companies may also consider adopting such measures which would help family-owned companies to overcome governance issues to greater extent.

Why Family Owned Companies Fail?

by Adil Farooq Qureshi

There's a Mexican saying; 'Padre noble, hijo rico, nieto pobre' (Father noble, son rich, grandson poor). Let me tell you that the title is not just a local or Pakistani issue. A recent survey suggests that less than 30% of Family Owned Companies (FOCs) reach third generation and 85% of FOCs fail before reaching fourth generation. The main reasons behind this are duality of roles and lack of independent advisers, family conflicts and poor succession planning.

What FOCs need is a sound corporate governance model. Today we see more FOCs interested in and implementing corporate governance than we did two decades ago, as shown by the changes they have made to their structures. While some family companies have an independent board only to satisfy legal requirements, more are moving toward the best practices to smoothly run their operations and achieve growth.

Corporate governance starts with separation of ownership, management and control of an entity.

Governance is the system by which organisations are directed and controlled. It includes the rules and procedures for making decisions on corporate affairs to ensure success while maintaining the right balance with the stakeholders' interest.

Corporate governance starts with separation of ownership, management and control of an entity. The cornerstones of effective governance are the board of directors, executive management, internal auditors and the external auditors.

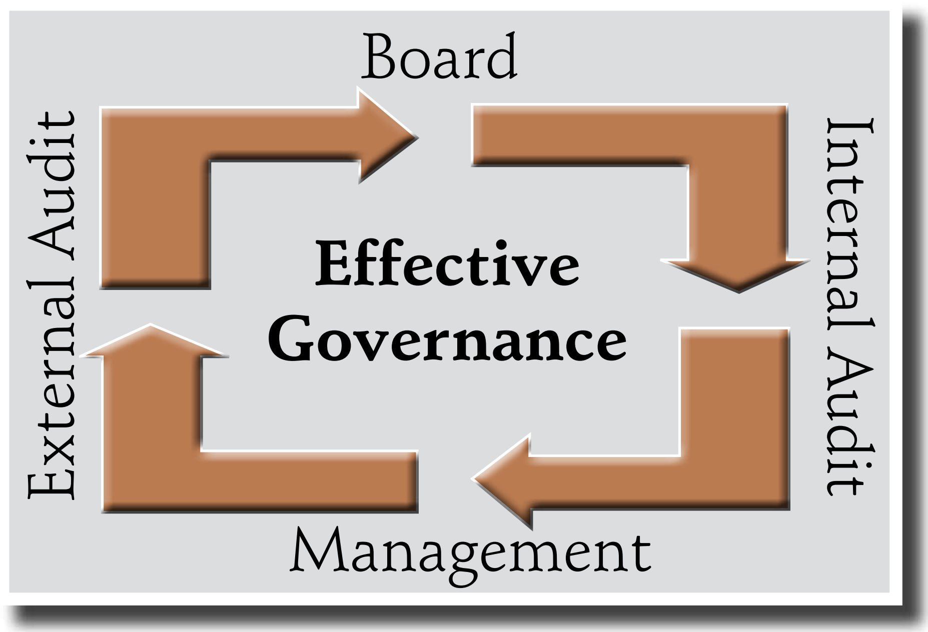
Sound corporate governance can:

- Improve risk management
- Improve access to capital markets
- Enhance the marketability of goods and services
- Improve leadership and performance
- Demonstrate transparency and social accountability
- Improve standards and procedures, and
- Safeguarding minority interests

Family owned businesses are companies:

- where the dominant shareholder is a family member
- which are run by heirs of the people previously in charge, or are clearly in the process of transferring control to heirs.

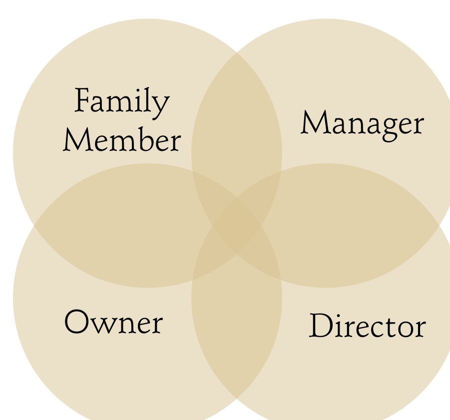
People build businesses based on their values and cultures. A strong family can build a strong business, however a strong business cannot build a strong family. All of us have to balance work-life, but the owners of FOCs have to keep the family together and business undivided simultaneously. Nearly half of Standard and Poor (S&P) 500 companies are family controlled whereas in Pakistan, FOCs alone generate more than 80% employment.



Four legged stool – if you start chopping off the legs, you would better balance pretty carefully.

Why this is such a hot topic? It's ironical that the very essential features of FOCs present severe challenges and incline them to failure unless properly managed. We can find examples of successful FOCs, but we don't get the information on those which fail in first, second or even in third generation. As family businesses expand, they face unique governance and performance challenges.

Perhaps the most important and distinguishing feature of FOCs is overlapping roles as pictured below. The answer lies in clearly defining roles of each family members' participation in business and transparent policies in business to ensure equal opportunity for all:



Next we shall discuss key characteristics of FOCs and the hurdles they create if not proactively countered:

Factor	Strength	Weakness
Culture	Core set of values identifies the culture Quick decision making; efficient communications Strong bond among the top management Innovative; informal; flexible; creative; adaptable	Next generation do not share the same values or differences within the same generation/family Founder's role stifles innovation; inefficient; highly emotional; resistant to change; reactive; high risk for conflicts
Vision	Long term planning and consistent decision making	Decisions are made day-to-day in response to problems No long-term planning or strategic planning
Leadership	Creative; ambitious; informal authority; entrepreneurial	Autocratic; resistant to structure and systems; avoids letting go; founder is still is on top of everything Lack of outside opinions and diversity on how to operate the business Majority board members from family – executive directors; absence of independent director
Ownership/Governance	Closely held; family-owned; high degree of control; earnings are motivators Control environment is largely customised to the needs and according to indulgence of management	Founder or family may sacrifice growth for control; owners do not have to answer to stockholders; often no outside board of directors; high premium on privacy
Roles	Often play multiple roles; flexible; dual relationships	Role confusion; CEO duality (dual role of CEO and chairman of BoD); family birth right can lead to unqualified family members in jobs Dividends, salaries, benefits and compensation for non-participating family members are not clearly defined and justified Distinctions between family members who are actively working and those who are not Family issues will affect the business like divorce, separations, health or financial problems also create difficult political situations for the family members
Family's Involvement	Employees committed; loyal; shared values and belief system; family spirit; strong sense of mission/vision	Cannot keep family issues out of business; inability to balance family's and business's need for liquidity; lack of objectivity; emotionally charged decision-making
Time	Long-term perspective; committed; patient capital; loyalty; deeper ties; trust built up over time	Hard to change; tradition bound; history of family affects business decisions; trust affected by early disappointments
Transparency	Standardised policies and procedures especially relating to hiring and progression to provide level playing field for family and non-family executives Adequate financial disclosures	None to safeguard interests of minority shareholders
Succession	Training can begin early; mentoring a life-long process; can choose when to leave Educate and gain experience outside the FOC before inducting young blood from family in the business	Family issues get in way; unwillingness to let go; inability to choose a successor Who from the next generation is up for the challenge … do they have the same drive? Hiring family members who are not qualified or lack the skills and abilities for the organisation. Inability to fire them when it is clear they are not working out Most family organisations do not have a plan for handing the power to the next generation, leading to great political conflicts and divisions Key management succession planning Inheritance law / will for family not made

Key Success Factors for FOCs

- Create clarity of roles within the family
- Create fair playing field for non-family members
- Fair treatment of outside financial stakeholders
- Succession planning
- Preserving family harmony and business growth
- Transparent recruitment and promotion

Regulatory Framework

- Code of Corporate Governance (CG) – compulsory for listed FOCs only – voluntary for unlisted, private, Single Member Companies (SMCs), sole proprietor FOCs
- At least one and preferably one third independent directors
- Executive directors including CEO restricted to one third
- Chairman and CEO cannot be same person
- Chairman to be elected from non-executive directors
- Maximum directorships of listed companies – 7
- Annual evaluation of board's own performance
- Approval of related party transactions

- The CG guide for FOCs issued by Pakistan Institute of Corporate Governance (PICG) – voluntary compliance for FOCs - same as above except the following:
- One independent director mandatory
- At least one non-executive director
- Minimum directors 5
- Chairperson ideally other than CEO; usually a senior family member nominated by non-executive directors
- Family governance
- External audit from independent firm of chartered accountants – requirement for all FOBs

Managing Change

Way Forward

Board of Directors

- Board to include independent & non-executive directors
- Clarity of roles of each director
- Appoint a professional CEO
- Form an audit committee, with non-executive members
- Attractive fee for independent directors
- Self-evaluation mechanism for board

Independent directors bring neutral opinion and enhance the risk management of the company manifold, e.g., if the same situation had arisen in one of their other companies. They can;

- Bring perspectives, experience, networks, connections for business improvement
- Help the CEO look beyond tactical issues
- Access to capital – according to McKinsey survey, investors are willing to pay 30% more for companies having good corporate governance
- Planning/advising on CEO succession and exit strategies
- Smoothing ownership transition to next generation

Family

- Family council for transparent communication with business on behalf of family
- Effective and structured succession planning
- Clarity of roles within the family
- Preserving family harmony and business growth
- Create Family Constitution which will form basis for the management of the Business

Management

- Competitive remuneration
- Transparent hiring and appraisal policies
- Strong emphasis on internal control and its demonstration by top management
- Recommendation of family council/independent advisory board for appointment of family members at senior management positions
- Create fair playing field for non-family members
- Develop and adopt formal written policies and procedures
- Delegate and strengthen management

Regulator

- Comply or explain model necessary for FOCs
- Minimum regulations to be specified for all companies through Companies Ordinance; a separate section for FOCs may be included
- PICG may start registration process for FOCs and make compliance mandatory
- Companies should also strive for full voluntary compliance with the best practices of corporate governance

We must embrace corporate governance as a strategic tool rather than just a checklist. For the family-owned companies, good governance makes all the difference and we have to overcome emotional sayings like;

'If it's not personal, it's business'. Well! It is always personal in a family business.

Governance in Family Owned Companies: Perspective from the GCC/Middle East Countries

Majority of the companies working in GCC are mainly family controlled. They exist in almost every sector, be it banking, real estate, oil, retail, hospitality, etc. This goes to show how important their role is towards economic development.

by Syed Imran Haider

Although the concept of family-owned company is in existence worldwide, but in Gulf Cooperation Council (GCC) these businesses are the key to the growth and sustainability of these economies. Having worked in UAE for the last four years, I have learnt that majority of the companies working here are mainly family controlled. They exist in almost every sector, be it banking, real estate, oil, retail, hospitality, etc. that goes to show how important their role is towards economic development. This makes it even more important to implement a culture of better corporate governance for their improved contribution to their respective economies.

The Dynamics

A number of family businesses in GCC began entrepreneurial projects 50 to 60 years back in the GCC. Over the years, they diversified their interests and investments into various sectors and created a number of successful ventures. These businesses have grown to the extent where a generational change is imminent. The reason for families to have strong connections with their businesses are attributable to certain factors like:

- Due to Arab tradition, the families prefer to keep the businesses within the family and then allow the outsiders later on if need be;
- Some solid business and political connections which are imperative to work within these closed economies.

The Importance of Corporate Governance in Family Businesses

Over the past few decades, the family businesses have grown to great levels within the economy and also globally. This poses even greater challenge to implement strong and robust business practices to ensure smooth and transparent working and future growth. That makes corporate governance even more critical for them. This will be a basis for family businesses to be more accountable and transparent in their operations. The awareness about adopting best practices is growing in the GCC but lot needs to be done still. There are still some businesses which do not keep it very high on their priority lists. With all the expansion the firms are achieving, there are more and more entrants into the business like fund managers and employees, etc. which makes it very complex and not easy to address if proper corporate governance practices are not in place. Under mature corporate structure, a proper organisational structure and respective responsibilities and the accountabilities of all stakeholders are well defined and that makes it easier to facilitate transparent running and growth of the business. This also ensures that the business strategy is implemented ensuring all practices are properly followed within the corporate governance framework.

Challenges in Implementing Best Corporate Practices

Who controls it?: The biggest challenge for the family controlled businesses which are growing fast is to keep control of the company and still run it smoothly and facilitate growth. It is just not possible for limited members within family to run affairs of the company and address all requirements of the businesses at all times. At the same time, the families do not want to let go of their control on the business as well. Allowing outsiders might not let them have full control as they used to have before.

Who takes over?: What happens when the business is expanding exponentially and also going through a generational change. How can a family controlled firm hand over a business which has grown in huge proportions worldwide? Is there a succession plan? If there is, how this is going to be done on such large scale? How transparency can be ensured to satisfy all stakeholders?

How to avoid family conflicts to affect business?: Any family member can disagree with the way the business is being run. This could lead to big conflict between the members and pose a threat to the running and growth of the business. Is there a way to avoid or address it?

How to hire and retain?: Generally we would find family businesses which are running very well, they have hired some good people like qualified professionals from outside who have helped them grow their businesses to great heights. But do they have any long term policy in place to retain them. This is one of the biggest challenges they face.

How to ensure transparency and fairness to all stakeholders?: For a business to grow in reputation, it has to be transparent and fair to all stakeholders. Not only to the minority shareholders, but also to its creditors. This is one of the biggest challenges faced in the Middle East when it comes to family controlled businesses. Although the annual reports, financial numbers and other relevant numbers are prepared within the businesses, they are very much internal in most of the cases. Still a lot needs to be done when it comes to transparency for the minority shareholders or the creditors.

The Adopted Method in GCC to Implement Corporate Governance: The Board of Directors

There is growing awareness and appreciation amongst the family controlled companies to implement good corporate governance, therefore, most of the businesses are now appointing a strong well-functioning board of directors. The board consists of independent, well qualified members where they drive the business through their strategic, corporate, legal and financial skills. A number of companies have clearly defined the shareholders role and the board's role to run the business. The board is also serving as an intermediary to the family and the company. They are enjoying full autonomy to run the business and let it grow under best corporate practices they choose to implement. This strategy is helping the family keep its control on the company, yet let it be more transparent and open to all the best practices that is necessary to run the business. This also helps give a better and fair view to the outside investors/creditors who will me more inclined to invest in the business due to adoption of best practices. It gives opportunities to the firms to keep its family conflicts away from running of business. Moreover, it is also encouraging the employees to work harder and grow within the company and stay with it long term. The existence of board of directors and good corporate practices make it very easy to implement a succession plan if the business is going through a generational change, even if the business is expanding.

Although many have adopted this model, but still families are reluctant to hand over control they have enjoyed to run the business to someone from outside, however qualified or competent he may be. But the firms that are not adopting the best practices are likely to lose their competitive edge in the future. GCC companies are some of the largest and most successful companies globally, but if they ignore the importance of good corporate governance, they will lose the battle to the multinationals, which are entering the market very fast.

Coffee Table Book:

ICAP – A Journey through Time

by Samina Iqbal

ICAP – A Journey through Time

“Will you accept the challenge to bring out ICAP’s coffee table book…؟” enquired the ICAP president Yacoob Suttar, after one of our quarterly (my first) Stewardship meetings.

I couldn’t say no, could I؟

The Institute of Chartered Accountants of Pakistan’s coffee table book, **ICAP – A Journey through Time** was my first assignment, which ran over for the next six months. I was to edit and review the (then 204 page) document. I was briefed about the extensive effort and research which went into the doc, and the draft of which was lying around since 2011 … all laid out in sepia (with an occasional burst of colour) crying to go into print. ICAP turned 50 in 2011and this book documented ICAP’s 50 year history and was scheduled to be launched on ICAP’s golden birthday. But it wasn’t so, for whatever reasons.

2015. Just holding this plump, prized doc gave me goosebumps. Clueless, I went on to feel the book…front, back, inside, flipping pages of this hefty, very-serious history of a prestigious Institute. Then I dared to begin with page number one… and by the time I reached the last page, I realised this was, as they say, a blessing in disguise. I got to know about the Institute in its historical perspective – in fast forward. So very rewarding for a new employee with little knowledge of what makes the chartered accountancy profession and the chartered accountants tick.

Armed with this intensely rich background, I transitioned into my home ground … editing the doc. Indeed, a lot of blood and time had gone into this humungous effort. Digging out even the minutest (available) details and placing those gems in its proper perspective was by no means an easy task. But yet again, another round of intensive, exhaustive editing, updating and reviewing followed, which resulted in updating of the Institute’s coffee table book till June 2015 and an increase of about 50 pages.

The concept of a book intended essentially for display over perusal was mentioned by Michel de Montaigne, one of the most influential writers of the French Renaissance, in his 1580 essay **Upon Some Verses of Virgil**: "I am vexed that my Essays only serve the ladies for a common movable, a book to lay in the parlor window..." In Britain, the term ‘coffee table book’ has been used at least since the 19th century.

David Brower is sometimes credited with inventing the ‘modern coffee table book.’ While serving as executive director of an environmental organisation/wilderness club in the United States founded in 1892, in San Francisco, California, he had the idea for a series of books that combined nature photography and writings on nature,

So, a coffee table book is “an oversized, usually hard-covered book that is intended to sit on a coffee table or similar surface in an area where guests sit and are entertained, thus inspiring conversation or alleviating boredom. The subject matter is generally confined to non-fiction, and is usually visually-oriented. Since they are aimed at anyone who might pick the book up for a light read, the analysis inside is often more basic and with less jargon than other books on the subject. Because of this, the term ‘coffee table book’ is used to indicate light reading.”

However, our Institute’s coffee table book doesn’t confine to this exact description. It’s a bit different in that it contains quite a bit of text for the serious reader too. And the foreword of the coffee table book says so: **“ICAP – A Journey through Time**, is a passionate effort of The Institute of Chartered Accountants of Pakistan to capture its extraordinary journey through time - indeed a golden journey. A journey of hard work, perseverance and brilliance of all past and present office bearers, Council members and staff of the Institute.

“Looking back is a reflective experience, and so it is with the Institute; and as we take this journey into history, we are reminded of its past landmarks, numerous achievements and its path to progress bearing indelible imprints of the untiring efforts of its members.

“Fifty four years is a long span of time, and a mere 250 page document cannot say it all. However, we have made a humble effort to encapsulate the history of the Institute of Chartered Accountants of Pakistan strewn with the good, the difficult and the impossible made possible. It wasn’t so easy. News, documents, reports and pictures were dug out from an era not so dependent on the visuals. No doubt, it was a real hard task. But it was an educative experience for all of us to pull together the Institute’s history and document it with pride and satisfaction.

“ICAP – A Journey through Time is indeed a collector’s item, and deserves a place on every Chartered Accountant’s bookshelf.”

And, of course, definitely not only on the CAs’ bookshelves, but also on the bookshelves of other important stakeholders in the business, finance, government and the corporate world.

ICAP Coffee Table Book Launch

The Institute of Chartered Accountants of Pakistan launched its coffee table book, **ICAP – A Journey through Time** on Friday, September 11, 2015 at its Lahore office, just before the Institute’s Annual General Meeting (AGM). The book was unveiled in a ceremony attended by the stalwarts of the profession, past presidents and Council members. Past presidents Abdul Hameed Chaudhri, Shaukat Amin Shah, Mujahid Eshai and Imran Afzal along with Hafiz Mohammad Yousaf (Golden Jubilee Celebrations committee chairman) did the honours.

Speaking on the occasion, past president Abdul Hameed Chaudhri said, “This book is indeed a collector’s item and it deserves a place in our hearts, not only on our bookshelves.”

ICAP president Yacoob Suttar lauded the efforts of the review and editorial team involved in the CTB project.

Postscript

Indeed, the challenge and motivation to make it happen came from the then ICAP president Yacoob Suttar; the advice/ support from the executive director Shoaib Ahmed; the calm influence from the COO/secretary Feroz Rizvi; and the (most dreaded and much required) final push from the then VP-North Muhammad Maqbool.

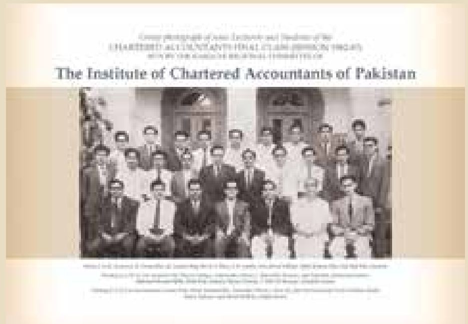
Booking of Coffee Table Book

The CTB costs Rs. 2250 and is open to booking by the members for their personal copy. For booking please contact: asad.shahzad@icap.org.pk

Please click on the following link for the CTB **launch** and the **preview** of selected pages from **ICAP – A Journey through Time**, and the overwhelming response the book received…

http://www.icap.org.pk/coffee-table-book-launch-september-11-2015/

Feedback: ICAP Coffee Table Book



- This book highlights the significant journey and achievements of your Institute. I appreciate your efforts and hope that you will continue your efforts with greater zeal for enhancement of higher education in the country especially in the accountancy field.
  Prof. Ahsan Iqbal, federal minister & deputy chairman, Ministry of Planning, Development and Reform. Planning Commission, Government of Pakistan

- Thanks a lot for sharing this impressive and illustrious coffee table book which refreshed my memories of the good old days. This is a remarkable initiative to document the key milestones achieved and contributions made by ICAP in development of accountancy and audit profession in the country and deserves appreciation and recognition.
  Ashraf M. Wathra, governor, State Bank of Pakistan

- The way the whole chronological account of the esteemed Institute has been squeezed into one collection is commendable and speaks of painstaking efforts of the editor, writers and researchers.
  Sikander Qayyum, governor's secretariat, Khyber Pakhtunkhwa, Peshawar

- The book embraces an array of milestones crossed in a 54 year journey by one of the country's highly competent and professional bodies and there is a lot to learn for other such important institutions of Pakistan from the experiences recorded therein.
  Ghulam Muhammad Abbasi, director, State Bank of Pakistan on behalf of Saeed Ahmad, deputy governor

- A very useful book and a very good contribution in the related field. Congratulations, on this excellent publication.
  Prof. Dr. Parveen Shah, vice chancellor, Shah Abdul Latif University, Khairpur

- The photographs and quotations reflect the effort the Institute has put in capturing and presenting its remarkable history. The Competition Commission is very young as compared to ICAP, and I also hope that the seeds we plant today will make us and future generations proud when CCP reaches its Golden Jubilee.
  Vadiyya Khalil, chairperson, Competition Commission of Pakistan

- This was overdue and enables each one of us associated at some time or the other with the Institute to find ourselves in it.
  Fuad A. Hashimi, president & CEO, Pakistan Institute of Corporate Governance (PICG)

- We are well aware of how important it is to keep the institutional memory of an organisation intact and it becomes more important if it is presented in the form of a coffee table book.
  Dr. Sarfaraz Khawaja, dean, National Institute of Public Policy

- This is a landmark publication and will be a source of pride for all financial professionals in the country in terms of reliving the enormous achievements of ICAP over time.
  Nadeem Naqvi, managing director, Karachi Stock Exchange (KSE)

- Publication of such a book is a good effort to save past memories and history of the Institute and bring it to the knowledge of the young students of accountancy.
  Akif Saeed, commissioner, Securities and Exchange Commission of Pakistan

- It is a really good effort and a very well-designed book.
  Tahir Masaud, chief executive officer, IGI Insurance Limited

- This book has been added to our library and will be a useful asset for our bar members and can also be used for reference purpose.
  Muhammad Zubair, president, Karachi Tax Bar Association (KTBA)

- It really reflects the hard work, perseverance of all past and present office bearers, Council members and staff of the Institute.
Syed Ijaz Hussain, member (Taxpayers Audit), Federal Board of Revenue

- The efforts put in by you and your team in compilation of this coffee table book is of very high standard. The editorial staff deserves appreciation for producing such a good quality book both in content and presentation.
Lt. Gen. (Retd.) Shafqaat Ahmed, chief executive & managing director, Fauji Fertilizer Company Limited.

- It is interesting to see how ICAP has grown over the years, and I am sure that your tenure will add new achievements to ICAP.
Irfan Siddiqui, president & CEO, Meezan Bank

- This celebration of ICAP's life tracks the development of its craft through photographs/narrations documenting all those who made this possible; as well, rare photographs and candid shots give you a nostalgic feeling about those who are no more with us but played their valuable role in the ICAP's success story.
Gohar Manzoor, managing partner, Riaz Ahmad, Saqib, Gohar & Company

- Now, it will be very easy for your successors to update it. You will be remembered forever for this great achievement.
Sarfaraz Mahmood, FCA, Riaz Ahmad and Company

- Congratulations to the entire editorial team, for accomplishing a wonderful task, never done in the history of ICAP!
Muhammad Maqbool, (ex) VP-North, ICAP

- I just saw the final version of ICAP's coffee table book and I must say that it is extremely impressive and I appreciate all the efforts that have gone into making this possible. William Thackeray once said that the next best thing to excellence is the appreciation of it. I do not agree with this, for a few words of appreciation cannot do justice to all the hard work, the toil and the smell of midnight oil that must have been burnt to produce a book of this quality. All I can say is that the reward for a work well done is the opportunity to do more. Keep it up.
Feroz Rizvi, COO/Secretary, ICAP

Others who responded on ICAP coffee table book with letters of encouragement and appreciation to the ICAP president are as follows:

- Senator Mohammad Ishaq Dar, minister for Finance, Revenue, Economic Affairs, Statistics and Privatisation
- Osman Saifullah Khan, member Pakistan Senate
- Justice Mohammad Azam Khan, chief justice of Azad Jammu & Kashmir Supreme Court of Azad Jammu & Kashmir
- Nauman K. Dar, president & CEO HBL
- Salman Burney, vice president & area general manager GlaxoSmithKline Pakistan Limited (GSK)
- Kashif Mateen Ansari, president Institute of Cost and Management Accountants of Pakistan (ICMAP)
- Nadeem Dar, member (FATE) Federal Board of Revenue (FBR)
- Dr. Shahid Siddiqui, vice chancellor Allama Iqbal Open University
- Parvez Ghiaz, chief executive officer Indus Motor Company Ltd.
- Suleman Chhagla, chief executive officer PICIC Asset Management Company Ltd.
- Mian Ayyaz Afzal, managing director/CEO Islamabad Stock Exchange Limited
- Ejaz Ali Shah, managing director Pakistan Mercantile Exchange
- Abdul Hameed Chaudhri Hameed Chaudhri & Co. Chartered Accountants
- Aftab Mahmood Butt, chief executive officer Kot Addu Power Company Limited (KAPCO)
- Syed Babar Ali, advisor Packages Limited
- Tahir Ahmed, managing director & chief executive Jubilee General Insurance
- Muhammad Junaid Shekha, chief executive officer ITMINDS
- Isphanyar M. Bhandara, chief executive Murree Brewery Co. Ltd.
- Lieutenant General Anwar Ali Hyder, president National Defence University.
- Aruna Alwis, Secretary/CEO The Institute of Chartered Accountants of Srilanka

Glimpses of ICAP Coffee Table Book Launch

September 11, 2015

Feedback: ICAP Coffee Table Book

ICAP – A Journey through Time

Join the Discourse

Any good corporate governance framework cannot translate into effective practices unless corporate culture promotes and facilitates such practices… Do you agree?

The board of directors has the major responsibility to ensure that corporate culture conforms to best governance practices.

Corporate culture refers to the shared values, attitudes, standards and beliefs of the employees of an organisation. Corporate culture is reflected in an organisation's goals, strategies, structure, and approaches to employees, customers, investors and community.

Mohsin Inayatullah Malhi, ACA
Dubai

The importance of corporate governance in today's global economy is magnified by the fact that the principles of good corporate governance are applicable to a wide variety of firms, not just large companies listed on stock exchanges. Corporate governance offers a valuable toolkit for introducing transparency, accountability, responsibility, and fairness into the decision-making, helping to ensure greater competitiveness and sustainability. The board of directors has the major responsibility to ensure that corporate culture conforms to best governance practices. This requires directors to practically exhibit certain behavioral norms, including the following:

- Informed and deliberative decision-making
- Division of authority
- Effective monitoring of management
- Evenhanded performance of duties owed to the company and to shareholders as a class

By improving company procedures and by building responsible boards, corporate governance contributes to business growth. Yet, its significance goes beyond improving company performance and maximising shareholder value. The external drivers of corporate behavior, from the regulatory framework to independent media, are equally important as internal controls, and reforming them helps to transform the institutional framework in which companies operate. That transformation is of great significance for businesses conducting business in emerging markets and for the overall development prospects of the country.

Hamza Bilal, ACA
Faisalabad

Corporate governance is the framework implemented to safeguard the interest of stakeholders. Corporate governance is implemented as a regulation in certain countries like USA Sarbanes Oxley Act. Corporate governance systems protect the interest of stakeholders through transparency and fair practice by implementing good management practices and whistle blow mechanism. Corporate culture refers to the shared values, attitudes, standards, and beliefs of the employees of an organisation. Corporate culture is reflected in an organisation's goals, strategies, structure, and approaches to employees, customers, investors, and community. As such, it is an essential component in any business's ultimate success or failure. The 2008 global financial crisis demonstrated very clearly how regulation and existing corporate governance mechanisms failed to prevent dysfunctional behaviour from spreading and seemingly thriving businesses from collapsing. I believe that a healthy corporate culture is a prerequisite of good governance and sound risk management. I think it is also essential for good long-term corporate performance. The human factor in organisations is central to understanding how they function; a firm can comply with generally accepted best governance practice and the letter of regulation, but it is ultimately about the people within, and the decisions they are taking. Boards must strive to ensure that their organisations get their culture right, so they get the kind of behaviour they want and avoid the sort of dysfunctional behaviour that causes accidents, destroys value and creates reputational damage.

Muhammad Aamir, ACA
Karachi

I agree that any good corporate governance framework cannot translate into effective practices unless corporate culture promotes and facilitates such practices. Unless individuals and entities understand the importance of corporate governance framework and own such framework in form and substance, even a perfect framework cannot work miracles. So there is a need at individual and corporate levels that we realise that corporate governance frameworks are for us and we have to implement them in their true spirit.

There is a need at individual and corporate levels that we realise that corporate governance frameworks are for us and we have to implement them in their true spirit.

Corporate culture floats from the top and the top is supposed to adopt benchmark practices which may lead them to success.

Muneeb Mufti, ACA
Islamabad

I agree absolutely. A flashy statement by the management about a corporate governance framework being adopted might look good in the annual report but would not be anymore than a placeholder unless implemented in letter and spirit throughout the organisation. Of course, the tone is set at the top which then trickles down to lower levels of the management. Certainly, the task becomes a lot easier if the roots are deeply embedded in the corporate culture of the organisation. Following the famous 'carrot and stick' approach, a reward and reprimand system needs to be in place to deal with any possible deviations."

Mudassar Ghulam Nabi, ACA
Islamabad

Governance of those charged with governance through a regulatory framework is a good idea but does not seem to be a pragmatic one unless a sense of responsibility arises and a strong culture invokes. A corporate governance framework is though a necessity to create a culture where each element of a governing body is appropriately selected and driven by that framework. A third party's evaluation of a governing body's performance is again a good idea but still not a famous one. Nobody in a governance role wants to be judged or intimidated. The governing body's self-evaluation of performance is an area that can be further enriched by training and awareness of evaluation and monitoring techniques. Corporate culture floats from the top and the top is supposed to adopt benchmark practices which may lead them to success. So the corporate governance framework helps to guide and provide the knowledge of best practices. With this preview, the given statement is correct to a major extent.

Zeeshan Haider, ACA
Karachi

The other way around is true for me. Corporate culture is a product of governance framework and not vice versa. Every culture is nurtured within some set of norms. Without first defining the norms there will practically be no culture. Governance framework comes first and its practice follows. I believe we don't have to re-invent the wheel every time to adjust the governance framework for the corporate culture and practices. A well laid down governance framework is a tried and tested mechanism. Just like in every other aspect of life, we sometimes have to rely heavily on the wisdom of a few (because of our inexperience and lack of expertise of the subject), the same is true for governance framework. If some governance framework fails due to poor support from the corporate culture, then this is a negation and a lack of will for the good cause.

Muhammad Usman Hanif, FCA
Lahore

Corporate governance framework rests on a cascade of principal-agency relationship:

- Shareholders – board
- Board – CEO
- CEO – senior executives (COO, CFO, etc.) and so on down the corporate pyramid.

The board as an instrument to direct and control management is the center piece of corporate governance – its construction and modus operandi determine its efficacy to oversee management and formulate strategic plans. Corporate governance seeks faithful discharge of contractual obligations constituting the corpus of corporate fundamentals. Corporate culture plays a significant part in promoting effective corporate governance frame work. It is regarded as an integral part of the governance structure at all level, of the organisation. Implanting an effective corporate culture is usually the core activity of the management. We cannot isolate the corporate culture from the society culture because it is a sub set. Culture consists of the patterns of thinking that parents transfer to their children, teachers to their students and, friends to their friends, leaders to their followers and followers to their leaders. In developing countries like Pakistan, where power has been distributed unequally, people are afraid of disagreeing with managers and their superiors. Therefore, it becomes a difficult task to achieve sound corporate governance practices when there is big inequality gap between powerful and ordinary people. In all these corporate cultures, the organisations may reflect full compliance with corporate governance framework, but this may not portray the true picture of the state of the affairs.

The last 15 years have seen strengthening of corporate laws and regulations aimed at bringing transparency in the system of governance and disclosures.

Corporate culture is a product of governance framework and not vice versa. Every culture is nurtured within some set of norms. Without first defining the norms there will practically be no culture.

In essence, corporate governance is the ultimate form over substance. The last 15 years have seen strengthening of corporate laws and regulations aimed at bringing transparency in the system of governance and disclosures. These measures are certainly important to bring about fairness. But can they be considered as optimal solutions? The responsibility of good governance primarily rests with the company itself. In order to put theory into practice, the corporate culture needs to be nurtured in a way that management must feel strong sense of commitment to act ethically and responsibly. Ethics and values are cornerstones of any effective corporate governance system. Dilemmas of growth vs adherence to ethics and values sometimes leads to conflict of interest and malpractices. Non effective corporate governance, due to deviation form code of conduct and lack of oversight by the board, might have contributed in corporate financial fraud in the last decade.

Shahid Khalil, ACA
Islamabad

There is saying that "To win without risk is to triumph without glory". In the arena of corporate world maximisation of the wealth is the pursuit, while guarding the equity in dynamic, uncertain foggy business environment. The entity standing tall shows the best risk culture environment and reminds Darwin law of nature selection, emphasising survival of the fittest. Risk culture can be defined as the set of encouraged and acceptable behaviours, discussions, decisions and attitudes toward taking and managing risk within an institution that reflects the shared values, goals, practices and reinforcement mechanisms that embed risk into the institution's decision-making processes and risk management into its day-to-day operations. An open and collaborative risk culture is stimulated through an enterprise wide commitment to excellence. That commitment starts with a focus on cultivating an effective learning environment and a pursuit of continuous improvement. In focusing on strengthening risk culture, collaboration among the board, risk company management and risk management committee is the lethal weapon to stand in the list of achievers. Strengthening the risk management committee and involving the department representative is the key to build team that can understand the ambiguous horizon and developing the best strategy to protect and earn the best for corporate. Division of team into three subgroups helps to attain the synergy required for the better results. Too close and too distant monitoring can be avoided by involving and strengthening the risk management committee. Defining objectives and targets at three different levels and then consolidating the efforts is like the dial of conventional clock. These three way efforts contribute to the institution's quest to gain the advantages of the winning hand.

M. Sharif Tabani, FCA
Karachi

I agree. Good corporate governance contributes to sustainable economic development by enhancing the performance of companies and increasing their access to outside capital.

Adnan Haroon, FCA
Muscat Oman

I agree with the topic. Putting a framework is like hanging a frame without picture. Governance framework is not rocket science but a basic principle/way of work. It is important that organisation arrange sessions by way of training, which should not be restricted to selected people but for all staff in the organisation. Good governance makes decisions smooth and transparent. It sets the standard that results in delivery of service and increases the value of business using a cycle of continuous improvement. It fulfils obligations and legislative requirements in the best interests of our customers.

Ahmad Sana, FCA
Lahore

No corporate governance framework can work effectively, unless the Board of Directors, executive management and second tier managers are properly trained. Corporate Governance Structure must be taught and practicals must be provided in universities which teach Masters in Business Administration too. Awareness and Practices will only make the compliance with corporate governance structures possible.

iris

The Advent of Help or Menace?

by Ellahi Bukhsh Qureshi

Yet another surprise from our tax department, an eccentrically sassy interface, for all the correspondence between the taxpayer and Federal Board of Revenue (FBR), while the whole country was dealing with preparation of filing their tax returns for the tax year 2014, a silent, yet, devastating plan was prone to be unfolded at the outset of meeting the filing deadlines.

As the taxpayers were waiting for return forms to be uploaded on the old e-FBR portal, FBR came with a knock; IRIS intro on the website with new platform, new interface and new return format. Utmost time taken was to understand and absorb the new interface and the upshots of new returns. Not just the advent came with a new look, it came along with numerous bugs which were trial tested, amended and improved during the implementation phase. An Information Technology (IT) guy would find the fact commendable that trial testing was conducted after the implementation phase as apparent in this case. However, even if it was trial tested, then sadly enough it failed to cope with practical repercussions.

During the seasonal hype of returns last year, overflow of mails were driven to member IT FBR to resolve the issues faced by the taxpayers. FBR at the primitive stage launched the first module of the IRIS, i.e. returns at the verge of deadlines while the remaining eight modules were gradually launched and some yet to be launched till to date. The IRIS inescapably is backed with admirable invocation for change and a concocted change but, however, the implementation has glumly depleted the fame that otherwise could have been brought. Many trivial yet hindering bugs were evident in the system, which were resolved throughout the extended deadlines, however, causing bothersome experience for the taxpayers. Although, without a second thought, it can inevitably be instituted that the office of the member-IT FBR was very much courteous and gentle with dealing the issues. Despite the upkeep by the department, at the end of the day, the returns yet had bugs and were submitted with technical misapplications incorporated in the system. Various unconventional remedies were sought by the taxpayers at the eleventh hour.

History is the best teacher of future, yet some people just fail to learn from it. This year, the authorities altogether tumbled in the same pit after a 180 degree turn. For the filing of returns for the tax year 2015, taxpayers have been pondered with the same bugs in complying with their statutory obligations. Even this year the IRIS failed to deliver what it was planned for. Same old bugs, hindrances, technical glitches and exasperated taxpayers.

This year, FBR bolted with another addition to the IRIS system, by introducing Withholding Tax Module effective for filing withholding tax statements for tax year 2016 i.e. from July, 2015 till June, 2016. At the primitive stage of launching the module in July this year, the member-IT conducted extensive seminars and conferences to educate the practitioners and officials for implementation of the new

Withholding Tax Module. It was told to be a promising initiation with quite commendable education provided in the seminars. However, after the launch of the module, the results are that the withholding statements of July 2015 and August 2015, which were required to be filed monthly by 15th day of the following respective month, were extended to be filed till October 8, 2015 and still after that, no recourse has been given. While arriving on the date of extension October 8, 2015, the FBR issued various extension notifications via Circular 3 of 2015, Circular 6 of 2015 and Circular 7 of 2015, even after which the taxpayer craves for further extension due to unresolved issues. The FBR, despondently failed to enforce the module, but hindered the tax collection process costing the national exchequer as well.

Neutrally speaking, the IRIS is very delicate and state-of-the-art interface, which if implemented professionally, can resolve much of the issues that are faced day to day in practically conventional tax practice. Some of the salient features of IRIS are as follows:

1. Paperless Environment

The IRIS introduces a paperless environment, significantly minimising the usage of paper. IRIS enables correspondence between the department and taxpayer through electronic-mail system. The IRIS system, once signed in by a taxpayer, opens an e-mail account like interface, where you can find Inbox, Outbox, draft and completed tasks options on your dashboard. It's like a dedicated email account for correspondence with the tax department. Taxpayers will receive notices and letters from the department through IRIS and can even reply them back through the system. Before IRIS, refund applications, applications for reduced rate on withholding tax, revision of returns or exemption certificates covering all the respective sections of the Income Tax Ordinance, 2001, were used to be applied manually.

Keeping aside the aforementioned pros of the IRIS system, the proceedings under the Income Tax Ordinance, 2001 are quasi-judicial in nature and services of notices and other documents are treated to be properly served as per provisions laid down in section 218 of the Income Tax Ordinance, 2001 including that of as provided under Code of Civil Procedure, 1908 (V of 1908). The said provision validates the service of the notices, orders or requisition through prescribed modes and which does not include any electronic mode or through IRIS or whatsoever.

2. Authentication of Correspondence

After FBR's wise policy of introducing Bar-code system, mandating the orders to be barred with a specific bar-code which is computerised and backed in the database has curtailed the malpractice at a high blow. Back-dated correspondence and orders, all are at the stage of becoming history. IRIS also enriches this quality, all the correspondence is documented in the database, which cannot be manipulated or so. The authentication of the correspondence has strengthened with the advent of IRIS. The old school tactics of malpractice that were experienced commonly have gradually ceased to be effective. Gone are the days for practice found so absurd that involved mishandling, destroying, stealing and manipulating the documentation which was quite an armament for both ends.

3. Less Hustle to the Department

The physical visits to the department are also curtailed with the arrival of IRIS. With more paperless environment, most of the correspondence is made electronically via computer. The hassles of lining up in the queue for submissions of correspondence in the department are about to be long gone. All what has to be done is on the taxpayers screen. It inexorably facilitates taxpayers to comply with the department without any hassle.

4. Ease in Changing Particulars of Taxpayer Profile

Currently, it is a cumbersome task to change particulars of a taxpayer on FBR e-portal for which you have to go through filing an online form and then verifying and coordinating the process with PRAL (Pakistan Revenue Automation (Pvt.) Limited). In a recent seminar conducted by the member- IT FBR in Karachi, arranged by Karachi Tax Bar Association (KTBA), it was told that this specific process shall be brought into ease subject to a one-time proper verification duly undertaken by a dedicated facilitation center. The said center shall be as similar as you go through for your NIC at NADRA office.

The said process as echoes appealing for assistance, also carters bulky process for obtaining NTN. Along with NIC queue, now you have queue for obtaining NTN also. Specially, where the taxpayer and principal officer in case of a company or an association of person would be required to personally visit such facilitation center for verification purposes and with other required documents including the requirement of having a cellular SIM, bio-metrically verified in his name and not registered on any other NTN.

The above features set-forth a very pleasant future for taxpayers and practitioners but however, the ground reality is that the taxpayer faces various problems mainly due to poor implementation of the IRIS. There are yet, numerous problems faced in-lined with the new system. Some of the prominently encountered problems include:

- Where you file your application for exemption certificate, most of the times the respective authorised office in the department states that they haven't received the application in their inbox or that it has been sent to some other jurisdiction. The struggle for corrective measures on the system are then pursued by the taxpayers and practitioners which takes time and costs to the taxpayers since their business is affected and hindered. Let's picture a businessman who has imported raw material or plant for his business and he is entitled to exemption under the law and his goods are at the dock waiting for IRIS system to be rectified, it is as exasperating as it sounds to be.

- Monthly withholding tax statements have been launched on IRIS from this July, 2015. The module as explained was alluring, however, as previously mentioned, the implementation not just cost the FBR some extra administrative pressure and faded confidence but also revenue to the national exchequer. For the first two months of the tax year 2016, the payments of withholding taxes were deferred only due to technical defects of IRIS. Later, as a last resort, the FBR had to ask the taxpayers to revert back to the old e-portal system to create the payment challan in order to avoid the barricade to revenue collection. Even by this day, IRIS is unable to generate bills for the payments of taxes and bills are generated from old FBR e-portal system.

- If you have an e-intermediary, i.e. your consultant, looking after your tax matters, the notices sent through IRIS won't be available for the e-intermediary in his profile but only available on your personal profile. As e-intermediary looks after many of his clients, he should be accommodated with a copy of notice or compliance that is dispersed by the tax department. The same matter was accordingly brought into the notice of member IT but not yet resolved.

- Where you have to file refund application, documents are required to be enclosed electronically and the system restricts you to upload files not exceeding 5MB. This is not an issue for small entities with moderately few advance tax details, but companies with huge advance taxes, are suffering from this gaffe. Also, the same should be excel-supported for speedy compliance facilitating the taxpayer.

- Small company as defined under the provisions of Income Tax Ordinance, 2001 are subject to reduced rate of tax @ 25% in lieu of normal rate of tax for companies i.e. 34%. The Return of Income of companies for the tax year 2014 on IRIS portal miscarried to switch to reduced rate causing impediments to taxpayers bearing the beneficial treatments under the law. However, the same has been rectified in the Returns of Income for the tax year 2015.

- Adjustment of brought forward losses was another pandora for taxpayers. The return of income for the tax year had a built-in mechanism of adjusting only brought forward unabsorbed depreciation losses portion of total brought forward losses against the current taxable income leaving aside the brought forward business losses. Inputting the brought forward business losses in its right place botched to adjust against the current taxable income.

In furtherance of all the above referred hurdles, e-support helpline and facilitation center which are established to help-out and facilitate taxpayers pertaining to problems faced in the system have turned their ears towards the wall. No response whatsoever is witnessed by any one since the start of tax year 2016 i.e. from July, 2015. The poor performance by the support facility was so consistent that it had to be addressed to chairman FBR, for redress, by Karachi Tax Bar Association (KTBA).

Combining all the above referred issues, a conclusion as an independent person can be construed that IRIS is a complete succor for the furtherance of effective revenue collection in the country, however, only operating effectively can turn the tables. Deficiencies and errors, with greater quantum lag the system significantly and not supporting the change. Besides, change is very hard to adopt, it's always a strategic component in change management to subsidise the hardships of adopting the change. Whereas FBR has failed to accommodate the ease of adoption of new system and causing the first response from taxpayers being abhorrence against the system.

Currently, new modules of IRIS are implemented and sorted out gradually as well, but haven't yet arrived to absolute solution. FBR should enforce coercive measures to avoid such mishaps for improving revenue collection and to facilitate taxpayers, which may embrace considering the loopholes embodied in the system administratively and technically.

New Revenue Standards

When to recognise? How much to recognise?

by Touseef Alam Khan

These simple questions are, at times, most controversial and difficult to answer.

Revenue is an important number in assessing entity's financial performance and prospects over time or comparing different entities. Therefore, use of consistent, comparable and appropriate revenue recognition framework is integral to fair financial reporting.

International Accounting Standards Board (IASB) has issued a new revenue standard (IFRS 15). Here, detailed coverage of IFRS 15 ('the Standard') is neither possible nor aimed. Instead, we would try to explore what new Standard holds in store for companies by answering key questions about its application, impact and implementation issues.

When was the new revenue Standard issued?

On May 28, 2014, two premier international accounting standards setting bodies, (IASB and US Financial Accounting Standards Board, FASB) jointly issued new revenue standards (IFRS 15 and Topic 606 respectively) after over a decade long project. Both standards are mirror image of each other with minimal differences. Creation of common revenue recognition guidance for IFRSs and US (Generally Accepted Accounting Principles) GAAP is a significant step towards their convergence and improvement in financial reporting.

Why is the new Standard required?

Existing revenue standards and interpretations have many weaknesses and inconsistencies. They have limited guidance and are difficult to apply to complex transactions (e.g. arrangements with multiple elements) partially because existing revenue standards do not include Basis of Conclusions. This often resulted in entities accounting for similar transactions differently which led to diversity in revenue recognition. To address these deficiencies, IASB undertook a major joint project with FASB to develop a comprehensive and robust framework for revenue recognition, measurement and disclosures.

What has changed?

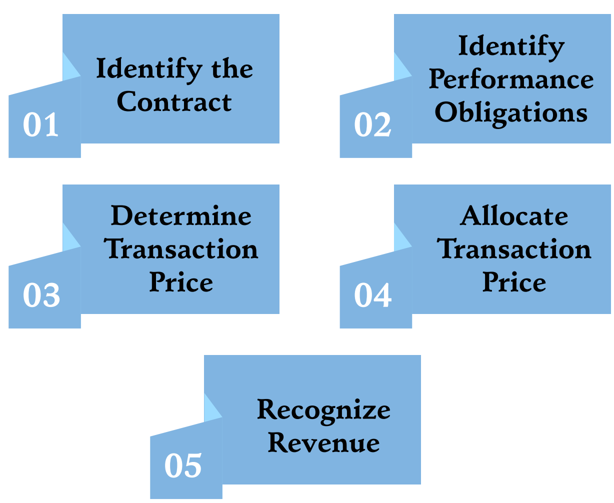
Upon application, IFRS 15 would virtually replace all existing guidance on revenue recognition under current practice (IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31) except for recognition and measurement guidance on interest and dividends which have been excluded from scope of IFRS 15 and moved from IAS 18 to IFRS 9.

What is the scope of IFRS 15?

The Standard is applicable to all contracts with customers across all industries except for lease contracts, insurance contracts, financial instruments and other contractual rights and obligations within the scope of IFRS9, IFRS 10, IFRS 11, IAS 27 and IAS 28, and non-monetary exchanges between entities in same industry to facilitate customers.

What is the overview of IFRS 15?

A five-step model is introduced which answers when and how much:



IFRS 15 provides detailed guidance to be used within each step.

What is the 'core principle' of IFRS 15?

Entity shall recognise revenue to depict the transfer of promised goods or services to customers for an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

What are major accounting implications?

These are quite a few. Certain significant implications are tabulated below:

Existing Requirements	New Requirements	Implications
Oral or Implied Contracts No specific guidance is available.	If given criteria are met, oral or implied contracts are treated as formal contracts.	May lead to earlier accounting of oral or implied contracts (before formal documentation of contracts).
Contract Variations Approval of Variation is required to be probable to be recognised.	Contract Modifications (e.g. variations) are required to be approved for recognition.	Tougher test as per IFRS 15. May result in deferral of revenue.
Stage of Completion For construction contracts and services, with limited exceptions, revenue is recognised with reference to stage of completion.	Progressive recognition of revenue is retained but permitted only when performance obligations are satisfied 'Over Time'.	May result in delayed revenue recognition.
Transaction Price Many companies defer recognition of Variable Consideration until revenue is reliably measurable, which can be when uncertainties are removed or amount is received.	Companies are required to estimate and recognise Variable Consideration using either 'Expected Value' or 'Most Likely Amount' approach.	May result in earlier recognition of Variable Consideration as revenue.
Claims and Incentive Payments For recognition as revenue, Claim acceptance must be probable (i.e. negotiations have reached an advanced stage). For Incentive Payments, contract is required to be sufficiently advanced so that it is probable that performance standards would be met or exceeded.	Claims and Incentive Payments are treated as 'Variable Considerations' which are recognised only when it is 'Highly Probable' that revenue would not reverse.	Higher threshold of 'Highly Probable' may result in later recognition of revenue.
Significant Financing Component Although limited guidance is available, some companies may not consider the financing component in the contract when recognising revenue.	Detailed guidance is available. Companies are required to adjust the transaction prices (except for practical expedient allowed) for significant financing components in the contracts.	May affect the amounts recognised as revenue.
Allocation of Transaction Price Companies use judgment in allocating transaction price to multiple-element arrangements (limited guidance is given in IFRIC 13 only).	Transaction price is allocated to each performance obligation on a relative 'stand-alone selling prices' basis (two specific exceptions allowed).	Stand-alone selling prices must be ascertained. IFRS 15 gives three examples of suitable pricing methods.
Pre Contract Cost Not required to be 'Incremental' to be capitalised.	Must be 'Incremental' to be capitalised.	Less capitalisation. Internal costs are less likely to meet the criteria
Loss Making Contracts Total expected loss is immediately recognised.	No specific guidance is given. IAS 37 would be referred for Onerous Contracts where only 'Unavoidable Costs' are accounted for.	May result in less cost being expensed.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When it will be effective?

The standard was originally effective for annual periods beginning on or after January 1, 2017. On September 11, 2015 by an amendment to IFRS 15, IASB deferred the effective date by one year to 2018 (earlier application is still permitted).

Why was effective date deferred?

IASB is currently consulting on proposed clarifications to the Standard. These proposals follow discussions within Transition Resource Group (established by IASB and FASB to support companies in IFRS 15 implementation). After completion of consultation on the proposed clarifications, final amendments to the Standard, if any, would be issued.

Is there any special transition requirements?

Yes. IFRS 15 is required to be retrospectively applied by following either Full Retrospective Application or Modified Retrospective Application approach.

- **Full Retrospective Application:**
  Subject to few practical expedients, the Standard would be applied retrospectively (to all contracts) to each prior period presented in accordance with IAS 8.
- **Modified Retrospective Application:**
  Standard is applied retrospectively to the Open Contracts only with cumulative financial effect adjusted against the opening retained earnings (or other component of equity, if appropriate) of the annual reporting period of initial application. Amounts reported in the prior periods, under previous standards, are not restated in this approach.

The new Standard would impact different companies differently. For many, business would be as usual and for others, its implementation might be a significant undertaking. An early response by updating accounting processes and internal controls for financial reporting to cope with new requirements, including extensive qualitative and quantitative disclosures, would be the key to successful implementation.

Good Governance & Fight Against Corruption

by Vincent Tophoff

World Bank President Dr. Jim Yong Kim recently wrote an inspiring blog on LinkedIn about the critical importance of good governance for all countries, arguing that "when [good governance] doesn't exist, many governments fail to deliver public services effectively; health and education services are often substandard; corruption persists in rich and poor countries alike, choking opportunity and growth."

Fortunately for the world, Dr. Kim sees a new wave of progress, driven by "the spread of information technology and its convergence with grassroots movements for transparency, accountability, and citizen empowerment." He subsequently provides a series of examples where progress indeed had been achieved. However, as "many challenges remain in fighting corruption and promoting good governance," he concludes his blog with a call to people in both developed and developing countries to share their experiences with anti-corruption or governance programs.

Through our interactions with professional accountants and others working in the public sector around the world, IFAC recognises the need for more effective public sector governance. I posted a comment on Dr. Kim's blog citing the recently published The **International Framework: Good Governance in the Public Sector** as a resource for other readers to encourage more effective public sector governance.

The Framework addresses many of the specific topics that Dr. Kim talks about, for example, avoiding and tackling corruption; transparency and accountability; improving communication and information technology; and fighting poverty by ensuring that public sector entities achieve their intended outcomes while acting in the public interest at all times.

International Framework: Good Governance in the Public Sector emphasises the fundamental importance for public sector entities to behave with integrity, demonstrate strong commitment to ethical values, and respect the rule of law.

The Framework also emphasises the fundamental importance for public sector entities to behave with integrity, demonstrate strong commitment to ethical values, and respect the rule of law. In addition, it urges public sector entities to:

- implement effective arrangements for determining their desired outcomes and what interventions are needed to achieve those outcomes;
- develop their leadership capacity;
- manage their risks and performance through robust internal control and strong public financial management; and
- implement good practices in transparency, reporting, and audit to deliver effective accountability.

No matter how good the Framework is, however, the proper application is the real challenge, because this is so often where the problems lie. To that end the Framework and its supplement also include application guidance, implementation tips, and examples.

We believe that the Framework will be a potent tool for public sector entities seeking to enhance their governance arrangements, win the battle against corruption, and reinforce transparency and accountability. What do think? What else can be done to enhance governance in the public sector?

Courtesy: International Federation of Accountants (IFAC) Global Knowledge Gateway (GKG).

Vincent Tophoff is senior technical manager with the Professional Accountants in Business (PAIB) Committee of IFAC.

How to do the job perfectly?

by Ahsan Subhani

We are living in the age of information. Information serves as 'raw material' for services business and to professionals it is as important as cast iron to a foundry. What to do when you are surrounded by too much information with the aim of processing all and coming out with a perfect outcome. This piece deals with this **self-inflicted information workload**.

Preparing business reports, cases, investment proposals, management reports, evaluating new ideas is part of daily routine of professional accountants. Most of us want our outcome to be perfect. We all have our own idea of what 'perfect' means. You could work on something until, in your opinion, it is 'perfect'. Ten people could look at your 'perfect' finished product and each of them might find at least one thing they don't like. Aiming for this perfection is good only when no one else is interested in the outcome. However, if others too have input a compromise is as good as you get; otherwise, you will continue to get yourself and others overloaded with trivia.

The two main categories of perfectionists are:

A. Time perfectionist

These are people who will do whatever it takes to meet a deadline. The find shortcut, ignore alternatives and options to meet the deadline, often with time to spare. This type of perfection is catastrophic in terms of quality compromise and because the rest of the team won't know what is genuinely urgent and what is urgent only to the time perfectionist.

B. Quality perfectionist

"If you want it right, you will have to wait." Those who suffer from quality perfectionism don't believe that anyone can do the job as well as they can, and as a result do more work than would otherwise be necessary and usually miss timelines.

To avoid overloading yourself and others, have the wisdom to decide when to be perfect, good, excellent, or not to care at all! The skill lies in knowing when perfection is the enemy of excellence.

Solutions

If you are time perfect

A time-perfect person needs to develop a sense of realism and balance between quality and time. Following are some ideas to do the job well.

1. While agreeing on a timeline to do a job, take a deep breath, think about what you would say normally and then double it. If you deliver early, that's great.
2. Learn to feel comfortable with extended deadlines. There may be time to play with. However, if you do this too often, you may lose credibility.
3. Be honest and be realistic. People are quite capable of managing their own time; you don't have to do it for them. At the start of the project, be honest with the team. Tell them exactly how much time they have to complete the project.

If you are quality perfect

Whether performance, writing, product design or construction, always have the audience in mind. Whose opinion really counts? Thousands of small, medium and large businesses fail every year because at some time they build their business around what they think is right rather than what the customer wants. Think of the end user. Think of the audience. You should have good sense of when good is good enough.

Achieving balance

'Fit for purpose' should be the new motto of recovering perfectionists. Make it perfect to the degree of 'fit for purpose'. This means that your work should:

- Perform the job required
- Suit the needs of end users and audiences
- Be within time, budget and to specification
- Be completed with minimum stress and frustration
- Be open to continuous improvement

Perfectionists are not keen to allow others to suggest improvements – if it's perfect, there is no need for improvement, right? There are times when perfection is not just necessary; it is a top priority, for example, getting the maths perfect for a moon landing or the process exactly right in surgery. In most other cases, perfectionism can be a hindrance. Striving for perfection first time round prevents you from trying alternative options, or experimenting. To avoid overloading yourself and others, have the wisdom to decide when to be perfect, good, excellent, or not to care at all! The skill lies in knowing when perfection is the enemy of excellence.

Deadlines or finish lines?

Deadline is a loaded word. A big project often have various deadlines the one stated at the start, the one you impose on yourself, the one others impose on you, the real one and the delayed one. Be flexible and realistic, and if more time becomes available to complete a project, use it.

Being late? What's the big deal

If you are late, you are wasting someone else's time: that is disrespectful. Sometimes, it can't be helped, but let people know. Henry Ford said: "Never complain, never explain." If you are late, the person you are keep waiting doesn't need to know all the intimate details of why you are late (unless it relates to them) and they most certainly don't need a made-up excuse. Keep it simple, keep it honest and don't make a habit of it. Being late all the time will only help you to develop a reputation for unreliability.

Ten tips on time

- As far as possible, do one thing at a time.
- Work on completion. Finish what you start before moving onto the next project or task.
- Allow for some 'slack' for unpredictable eventualities.
- Rushing wastes time. Relax.
- Set realistic deadlines and adapt as 'unknowables' happen.
- Be clear about how much of your time people can have.
- Be present on the task you are doing. Don't let your mind wander.
- Make a written plan of your events.
- Let people who need to be aware of your activities know your plans and changes.
- Plan for thinking time.

Sometimes the best way to ensure an event fits into the time available is to take a break. Speed and action aren't always appropriate: stop and think.

- Clear your head when faced with a challenging problem.
- Generate more than one workable solution to a given problem.
- Think creatively.
- Think productively instead of re-productively.
- Develop a clear methodology that will simplify problem solving.

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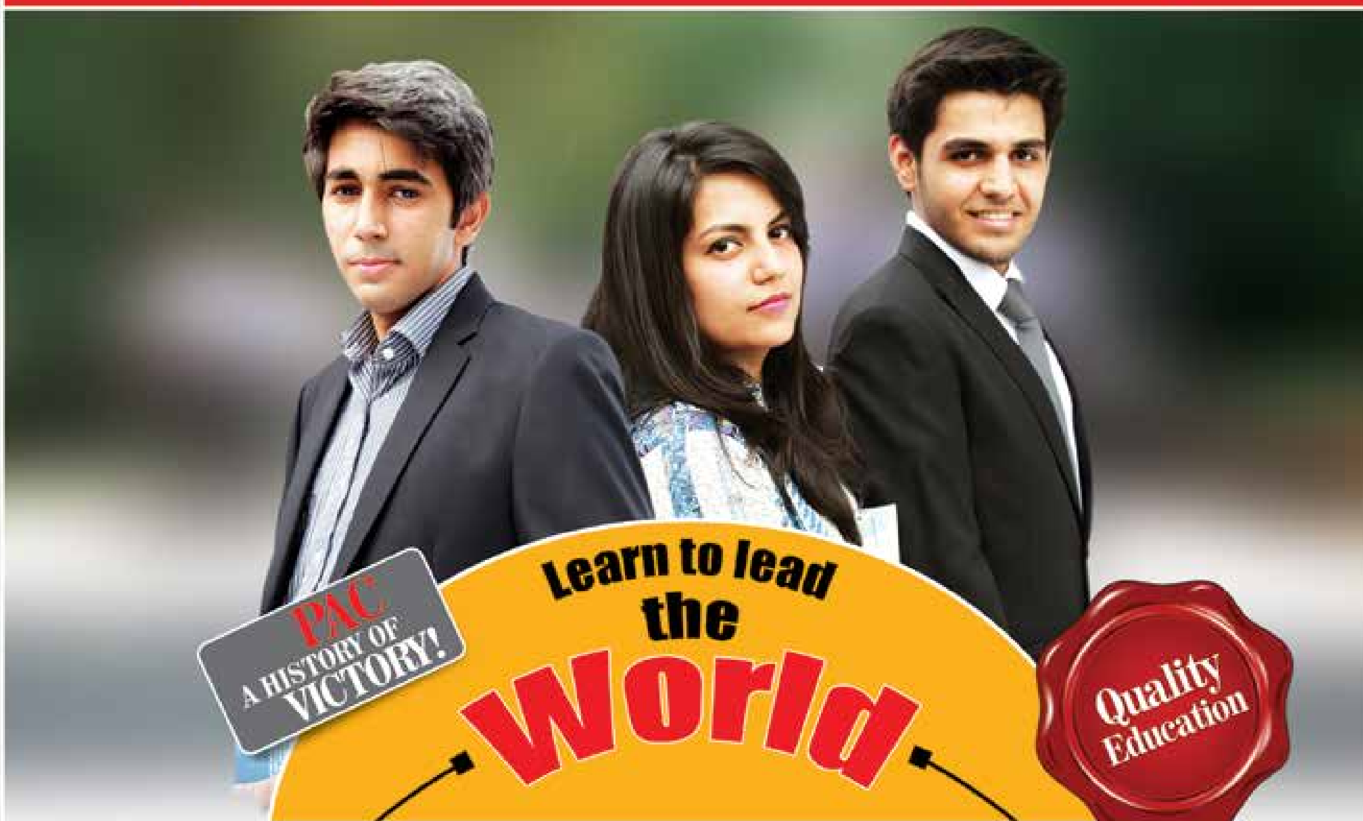

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