

# CORPORATE GOVERNANCE FROM THE PERSPECTIVE OF FAMILY OWNED BUSINESSES IN PAKISTAN

***Presented by:***

*Taha Asif*

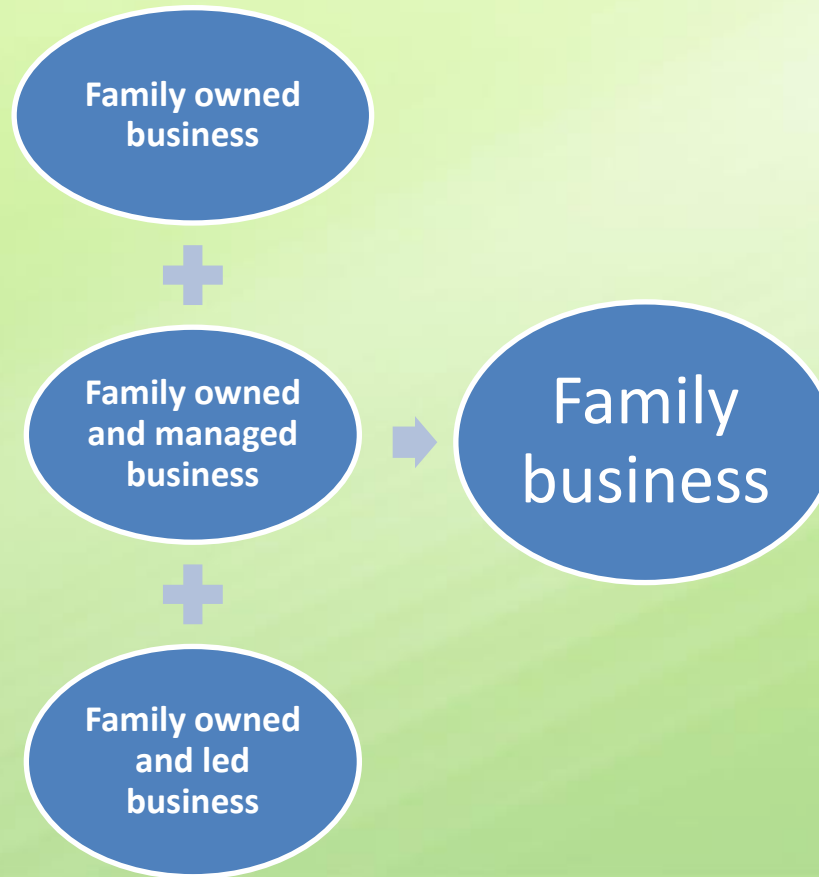
*Nabeel Pervaiz*

*Jan Muhammad Bhatti*

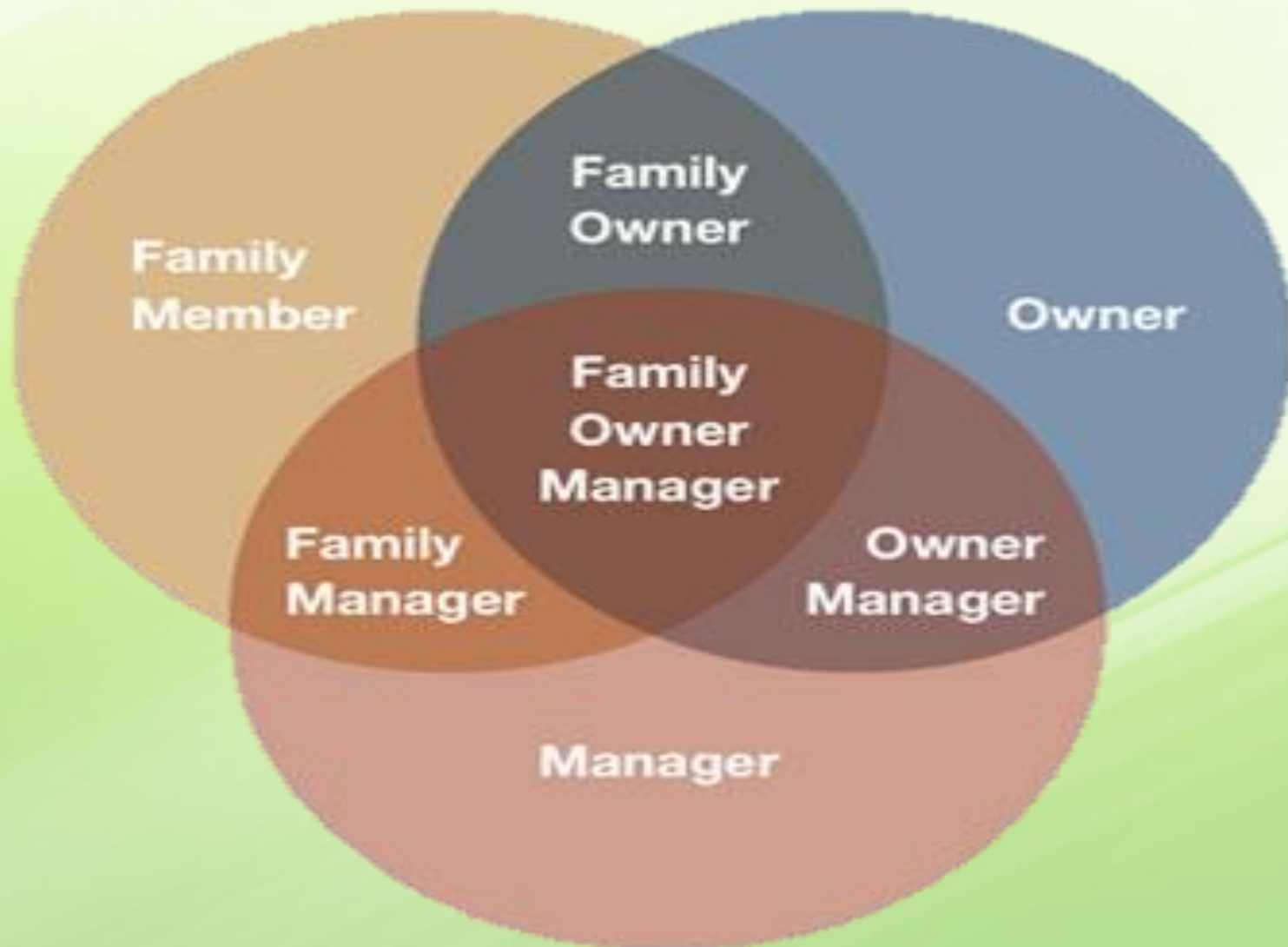
# FAMILY BUSINESS

A family business refers to a company whereby the voting majority is in the hands of the controlling family; including the founder(s) who intend to pass the business on to their descendants. The terms “family business”, “family firm”, “family company”, “family-owned business”, “family-owned company” and “family-controlled company” can be used interchangeably.

## Family Business Types



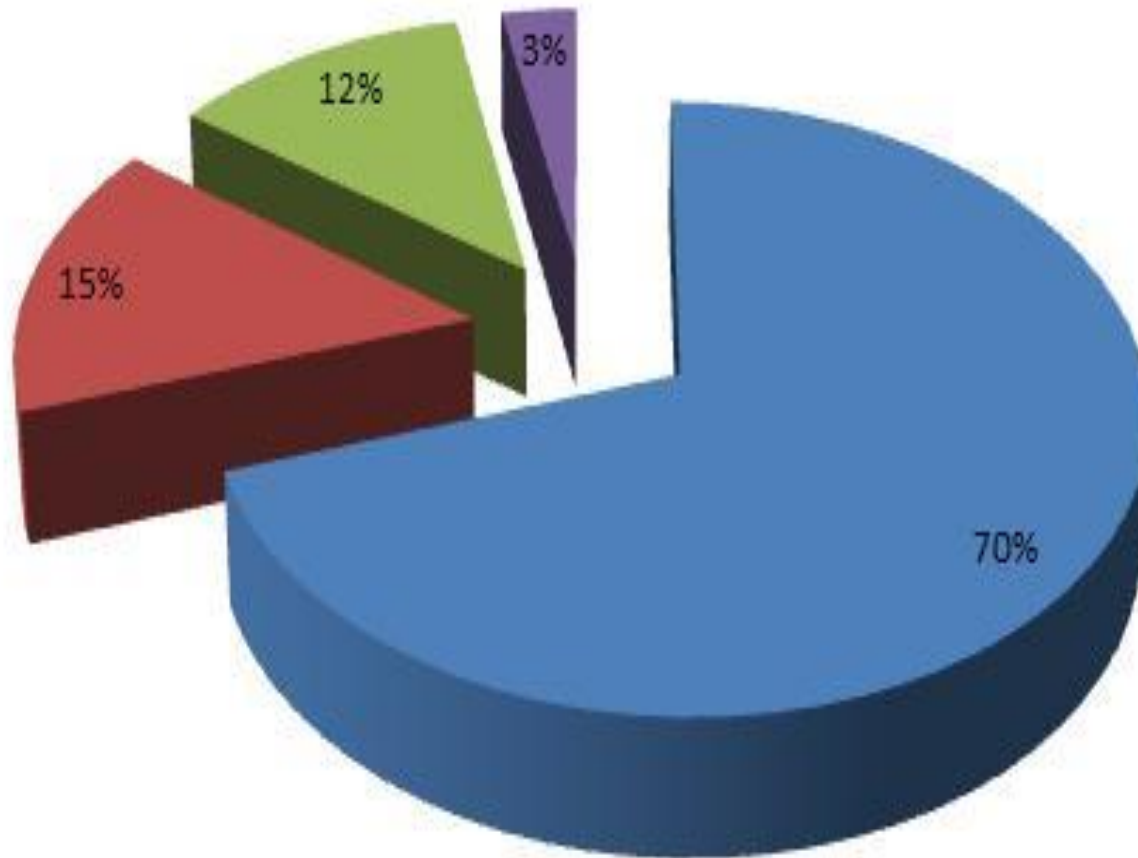
# FAMILY, OWNERSHIP AND MANAGEMENT



# ISSUES IN FAMILY BUSINESSES IN PAKISTAN;

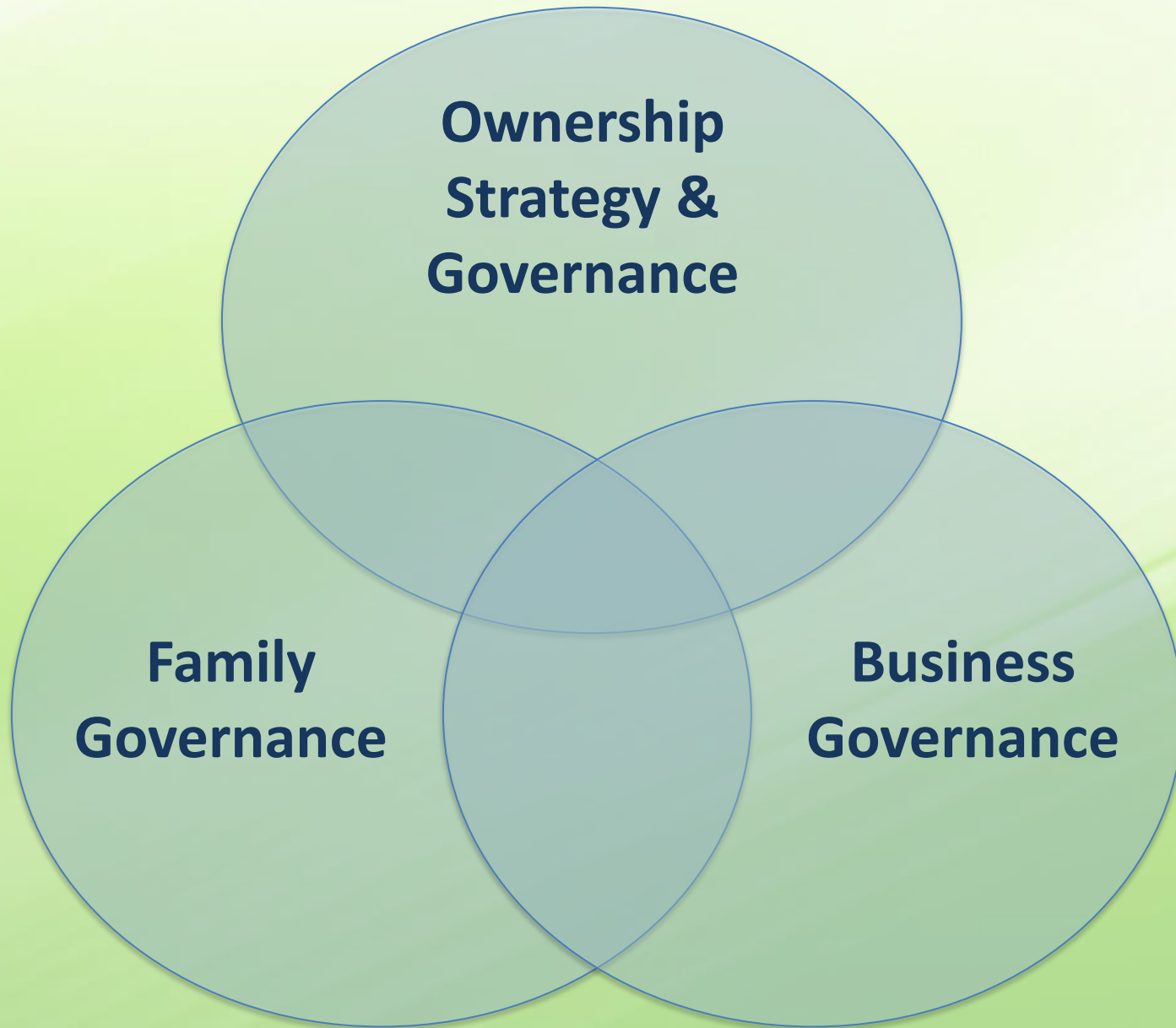
- Segregation of business and personal/family issues, family conflict effecting business
- Families ability to suppress interests of minority shareholders
- Lack of competent owner managers leading to mismanagement
- Families ability to manipulate financial information leading to exploitation of public interest
- Poor succession planning
- Lack of trusted advisers, limited involvement of professionals in decision making
- Poor strategic planning
- Different visions between generations leading to constant changes in strategic direction of the entity
- Exclusion of family members outside the business.
- Unprepared next generation leaders

# FAMILY BUSINESS SURVIVAL RATE\*



- Never gets past 1st generation
- Never gets past 2nd generation
- Never gets past 3rd generation
- Make it to 4th generation and beyond

# PILLARS OF GOVERNANCE IN FAMILY BUSINESSES



# FAMILY GOVERNANCE

---

- **Family Constitution**

- Family Member Employment Policies
- Family Member Shareholding Policies

- **Family Governance Institutions**

- Family Assembly
- Family Council
- Family Office
- Other Family Institutions

# OWNERSHIP GOVERNANCE

---

- Maintaining Shareholding structure
- Shareholding changes
- Establishing an independent board/ including family and independent directors
- Providing broad guidelines to board members
- Securing Minority Interest *(Both Board and Family Owners should take note of it)*



# BUSINESS GOVERNANCE

- Board with independent members (*Preferably at least 1/3<sup>rd</sup>*)
- Competent management personals
- Business first policy
- Professionally Qualified and experienced CEO
- Established policies and procedures
- Strong Internal control and risk management system
- Independence in business dealings and disconnection of owners from management (especially lower management)
- Succession Planning of Senior Management

# GOVERNANCE DEVELOPMENT

Governance Component	Board Oversight	Management Control	Disclosure/ Transparency	Shareholder Practices
<b>Level 1</b> <ul style="list-style-type: none"> <li>● Founder/Single Owner</li> <li>● Few employees</li> <li>● Simple business Model</li> </ul>	Outside advisors	<ul style="list-style-type: none"> <li>▪ Limited Financial Recording</li> <li>▪ Vague Business Plans</li> </ul>	<ul style="list-style-type: none"> <li>➤ Preparation of basic financial accounts</li> </ul>	<ul style="list-style-type: none"> <li>○ Ongoing Briefings</li> <li>○ Discretionary Drawing / Dividend</li> </ul>
<b>Level 2</b> <ul style="list-style-type: none"> <li>● Few Shareholders</li> <li>● Limited no. of Employees</li> </ul>	Advisory board	<ul style="list-style-type: none"> <li>▪ Improved Financial recording.</li> <li>▪ Establishment of policies and procedures</li> </ul>	<ul style="list-style-type: none"> <li>➤ Preparation of basic financial accounts along with some management reports</li> </ul>	<ul style="list-style-type: none"> <li>○ Annual partner/ shareholder meetings</li> <li>○ Investor briefings</li> <li>○ Dividend/Drawing policy</li> <li>○ Family policies</li> </ul>
<b>Level 3</b> <ul style="list-style-type: none"> <li>● Multiple Shareholders</li> <li>● Medium no. of employees</li> <li>● Moderately complex business</li> </ul>	Formal board	<ul style="list-style-type: none"> <li>▪ Internal control framework</li> <li>▪ Establishment of IAD</li> </ul>	<ul style="list-style-type: none"> <li>➤ Regular Financial and other management reports</li> </ul>	<ul style="list-style-type: none"> <li>○ Formal AGM</li> <li>○ Dividend Policy</li> <li>○ Family Governance</li> </ul>
<b>Level 4</b> <ul style="list-style-type: none"> <li>● Multiple Shareholders with Public interest</li> <li>● Medium no. of employees</li> <li>● Moderate complexity</li> </ul>	Active board having independence	<ul style="list-style-type: none"> <li>▪ External and Internal Audit</li> <li>▪ Management Committees</li> <li>▪ ERP system and Internal control framework</li> <li>▪ Strong Finance, HR, IT and IAD functions.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Financial Statements as per companies ordinance and IFRS as applicable in Pakistan</li> <li>➤ Non-financial disclosures for Shareholders</li> </ul>	<ul style="list-style-type: none"> <li>○ Minority Shareholder protection</li> <li>○ Proper AGM's</li> <li>○ Dividend Policy</li> <li>○ Family Governance</li> </ul>

THANK YOU