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FAMILY GOVERNANCE CRITICAL FOR ECONOMIC DEVELOPMENT

Many family-owned businesses in Asia suffer due to poor management and a lack of transparency, but those that take steps to improve governance can reap significant benefits, including improved access to finance.

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IN MYANMAR, business is personal: Family-owned companies are a key fabric of its economy and society at large. About 83 percent of all Myanmar businesses, or around 620,000 business entities, are in the informal sector and the majority of these are family-owned, while over 99 percent of 127,000 registered companies are small and medium enterprises, according to government data released in 2013. This scenario is unlikely to change soon, even as the country develops its capital market and ushers in more foreign investment.

But that's not a bad thing. Family businesses have long been the engine of growth for economies around the world. Whether global brands such as Wal-Mart, Samsung and L'Oréal, or family businesses passed on from generation to generation, they have been the source of job creation, economic activity and even a source of national pride.

However, family businesses often have short life spans: A mere 33 percent survive the founder and an astounding 95 percent fail by the third generation, according to the Family Business Network. They often become victims of their own making, failing to prepare for the demands of a growing business and a much larger family network.

It's important that the principles of family business governance become part of the discussion around dinner tables in Myanmar. Such principles include putting in place governance structures, including a well-structured board, a professional management team, sound control functions, and proper shareholder and disclosure practices. They also introduce mechanisms to manage potential challenges within the family, such as family constitution, employment, succession planning, disputes and shareholding.

A WORKER unloads sacks of potatoes at a market in Yangon. The overwhelming majority of businesses in Myanmar are family-owned small and medium enterprises. Photo: AFP

The benefits of good governance

Numerous studies have shown that good governance helps companies improve performance through better decision-making, stronger risk management and enhanced efficiency. Effective governance can also boost the confidence levels of potential investors and business partners, improving access to capital.

Through our work at the International Finance Corporation, we have seen first-hand the benefits of good governance in family businesses across all sectors. For this reason, it's become a priority area for the Myanmar Corporate Governance Initiative, a working group established by IFC, the UK Financial Services Taskforce, and the Australian and British embassies. Activities so far have included the launch of a family business governance handbook for Myanmar, which highlights the importance of this topic toward the development of the private sector.

Many Myanmar firms – ranging from the group of companies founded by entrepreneur Mr Serge Pun to City Mart Holding – realise the business value in raising governance standards and have taken, or are in the process of taking, steps to do so. This includes putting in place formally structured boards with a balanced composition of family members and outsiders, and establishing professional management teams with proven technical skills.

As Myanmar continues to open up and integrate itself with the rest of the region, the number of foreign investors entering the country seeking good business partners will rise exponentially. Investors will not only look at the governance of the business but also at the founding family's role in it: What is the background of this family? Where did their money come from? How is the family involved in the business and how will it be involved in the future? The unique challenge for family businesses is one of sustainability: Their long-term success is tied not only to the fundamentals of the business but also to the family behind the company.

Common challenges

In IFC's experience, common challenges afflicting many family-owned companies in Asia stem both from shortcomings in their corporate governance practices and issues relating to their family's role in the company. Such businesses often suffer from a lack of transparency. The boards of directors comprise mostly family and friends, and they function poorly and meet infrequently. They usually have informal management structures as well as nepotistic employment practices, with family members holding key positions regardless of whether they are qualified. Typically, the family patriarch or company founder will have all of the decision-making power.

The challenges for a family business will change as the company goes from generation to generation. During the first or founder generation, the main concerns relate to core issues of succession and survivability. As the founder's children take over, these concerns will have shifted to maintaining the family vision and ownership while integrating an increasing number of outsiders. In the third generation, when there are often dozens of family members with some form of interest in the business, the challenges are more about managing disputes and family participation in the business.

Under current Myanmar laws, very little is required of family companies in terms of corporate governance. Even under the new Companies Law – which will be an important achievement for Myanmar once it takes effect – there will only be basic provisions for company boards, director duties, and disclosure requirements. It will be incumbent on family companies in Myanmar to make further governance-related improvements.

Family businesses in Myanmar need to undertake measures to professionalise their management team, including introducing merit-based employment and formal accountability and incentive mechanisms. They need to improve their control functions and set up a well-structured board of directors, which will address the issue of succession planning for both family and non-family members. Family members should also consider employing mechanisms to help govern the relationship between the family and the business.

However, every company is different and will require its own practical approach to governance. Changes should also be done at the right pace based on business needs and what works for the company. For example, some family businesses opt for setting up an advisory board of select individuals who can

FIRST MYANMAR Investment chairman Mr Serge Pun speaks at the Asian Forum on Corporate Social Responsibility in Nay Pyi Taw in September. Pun is one of a number of Myanmar entrepreneurs who recognise the benefits of raising governance standards at their companies through measures such as putting in place a professional management team. Photo: Supplied

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provide strategic advice to the company, rather than making major changes to the composition of its board of directors right away. Once they become comfortable with the advisory board and the way it functions, they would transform it into a full board of directors. Likewise, some family firms hire outside professionals to key executive positions, such as chief financial officer or chief operating officer, as a way to test non-family members and strengthen the capacity of the management team. Various strategies can be adopted over time to make the notion of having outsiders involved in the business more palatable for the family.

Once a family business brings in outside investors, improving governance practices, particularly in terms of board structure and shareholder practices, will become an imperative. Such investors, while placing faith in the family by investing in the first place, will naturally want to ensure that their interests are appropriately balanced with those of the family. None of this needs to be onerous or daunting for a family firm. Practicality should prevail in such matters and improved governance will foster the company's success for the next generation and beyond.