Author: Dr. Jacqueline Schwartz International Associate in Alcogal

Corporate governance in family businesses: balancing family and business interests

When discussing Family Businesses, we often think of small and medium-sized enterprises (SMEs) managed informally and with limited growth expectations. However, this perception does not reflect reality.

Approximately 90% of the world's businesses are family-owned and responsible for most jobs and global Gross Domestic Product (GDP). Family businesses play a vital role in the business fabric of countries and often lead their respective markets. Prominent examples include Walmart, Toyota, Zara, Samsung, Ford, BMW and Berkshire Hathaway.

These companies are not only more profitable than their competitors because of their resilience, adaptability, long-term vision, and members' commitment, but they also face a critical challenge: continuity. Only 30% of family businesses transition from the first generation (the founders) to their children, and only 15% successfully transition from children to grandchildren.

Then, what do Family Businesses do to guarantee their continuity? One of the keys is the adoption of good corporate governance practices. In other words, governance refers to how the different spheres of the family business are organized and how decisions are made.

At the founder stage, decisions are usually concentrated in a single person who acts as a shareholder, director, general manager, and any other necessary role. This centralization, while powerful, must evolve for the company to survive the founder's retirement. This is where good corporate governance practices become a crucial ally. These practices professionalize management, monitor performance, manage conflicts and risks, improve communication, and differentiate roles for sound decision-making.

They also create the right environment for succession planning, one of the main challenges in the generational transition.

1. **Role definition:** The first step is to understand the role of each actor in the family business. When starting to work with families, it is essential to align concepts and clearly define what we mean by shareholder and director and their respective roles and responsibilities. Who supervises whom? How often should they meet? What topics should be discussed, and who should participate in each meeting?
2. **Role assignment:** After defining the functions, we must determine who occupies each role based on their preparation and capacity to make decisions beyond the family's link to the founder. This may include incorporating external family members.
3. **Establishment of regular meetings:** Define a clear call and agenda and provide the necessary information for decision-making. Decisions must be made collegially, and follow-up and control mechanisms must be established.

Therefore, in the area of ownership, the meeting of partners should be encouraged to generate commitment from both those who are involved in the company's management or direction and those who are less involved. Shareholders have a crucial role, including electing directors and supervising their performance.

The Board of Directors should be encouraged to meet to define the strategy, monitor it, and elect and supervise senior management, among other tasks.

In the Family area, it is beneficial to create the Family Council. The Family Council is designed to safeguard the family's long-term interests. The aim and objective of this forum are to generate instances of dialogue and decision-making, ideally by consensus, on matters affecting the owner's family and their interaction with the company.

Ultimately, implementing these measures and new habits of conduct will foster the trust and transparency necessary to ensure the continuity and growth of the family business. Effective corporate governance also promotes long-term business success.