

# Family Business Solutions

## Trust in Governance

---

**London June 2010**

# “Distrust” in governance

- The Agency Problem. Managers are assumed to be “self interested hedonists”
- Independent non-executive directors (rather than 2 tier boards)
- Board committees where the board is not to be trusted
- Equity incentives to align interests of employees and owners

# UK corporate governance

Listed public companies

Dispersed ownership

Predominant role of the financial  
institutions

Shareholder value is paramount

Short term investor commitment

Short term performance

measurement

High financial leverage and creative  
accounting

# Comparison with family business

Listed public companies

Dispersed ownership

Predominant role of the financial institutions

Shareholder value is paramount

Short term investor commitment

Short term performance

measurement

High financial leverage and creative accounting

Mainly private companies

Concentrated family shareholders

Predominant role of the owning family

Family seek other added value returns

Long term family commitment

Long term investment horizon

Low financial leverage and cautious accounting

# The advantages of trust based governance

# Advantages

- Effective teamwork. Roles allocated based on trusting each other's talent to deliver
- Speedy decision making. Less “red tape”. Judged by results rather than procedural compliance
- Helps encourage entrepreneurship

# Economic returns

- Stable and relatively cheap capital if the owners trust each other to stay invested for the long term
- Owners' commitment is reciprocated in long term commitment from employees.
- Over time this can enhance returns and reduce costs

# Psychological returns

- Generates goodwill, a sense of well being and happiness on a personal and organisational level
- Promotes individual qualities; empathy, sympathy and awareness of the greater good rather than personal enrichment

# Psychological – v - Economic Returns

- Trust is always risky
- Would you accept an *economic loss* as the cost of trusting someone because the *psychological benefits* still convince you that trust is preferable to distrust?
- Or would you impose new rules to mitigate risk of future loss even if the cost is increasing distrust?

# How do you build trust into your family business governance

Who do you trust?

# Type X

- *“We trust people we know”*
- *We trust people who are like us; based on family, kinship, social, religious or ethnic background (Madoff)*
- *“Insiders” can be trusted. “Outsiders” need watched*

# Effect of Type X on governance

- Limits the people who can be trusted and involved in governance
- Ownership restricted to family (may exclude spouses/partners)
- May even be restricted to working owners. Non-working owners not to be trusted
- Board/management dominated by family and “insiders” who can be trusted
- “Outsiders” carefully checked and may never be “accepted”
- Family assembly is an inner sanctum. May be restricted to bloodline
- Employment policy promotes the interests of family members because they can be trusted

# Type Y

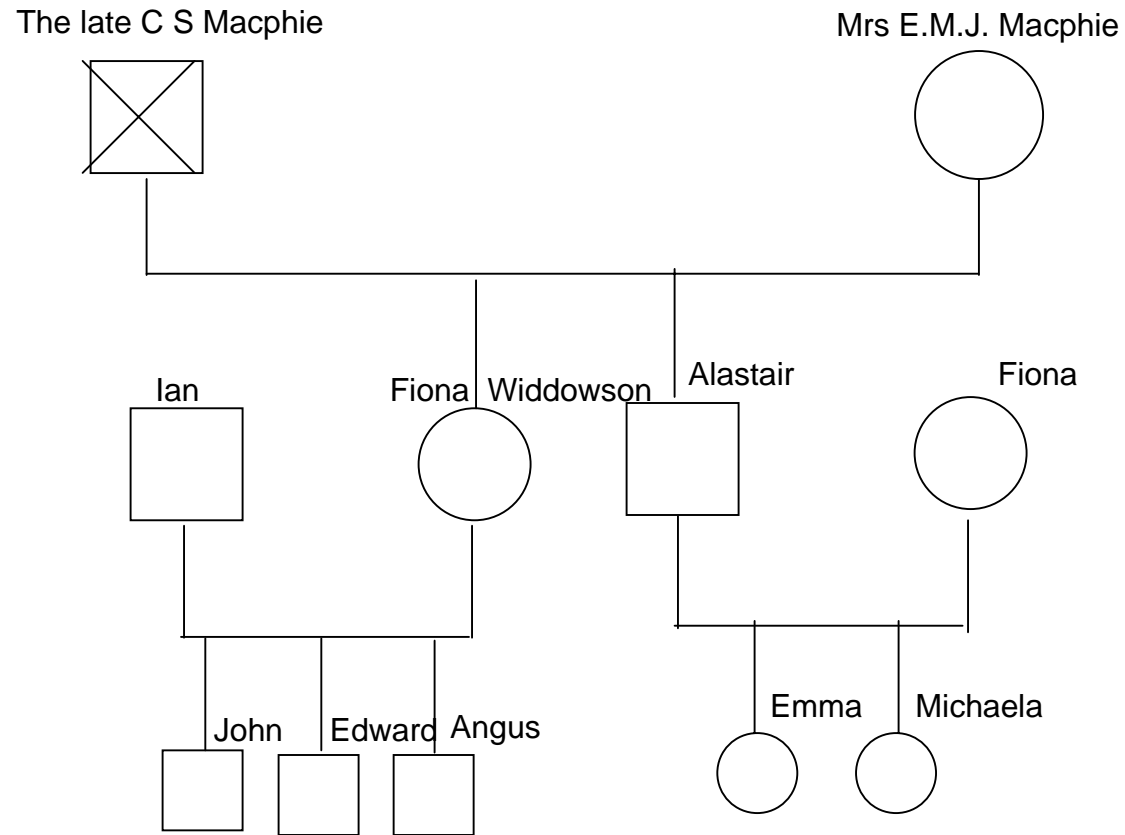
- *“Treat others as you would wish to be treated by them”*
- *Adopt a trusting attitude in the hope and expectation that this will be reciprocated rather than abused*
- *The “rational optimist” People solve problems through exchanging ideas, motivated by self interest and altruism. More people, better results. Matt Ridley*

# Effect of Type Y on governance

- Less innate suspicion of outsiders. Expands the range of people who can be trusted and involved in governance
- Ownership more open; could include spouses, managers, employees
- On the board, ability and competence matter as much as “insider” status
- Family assembly open to outsiders (board, advisers) participating
- Employment policy challenges family members and appointments and promotions are based on merit; “outsiders” treated equally



# Macphie Family



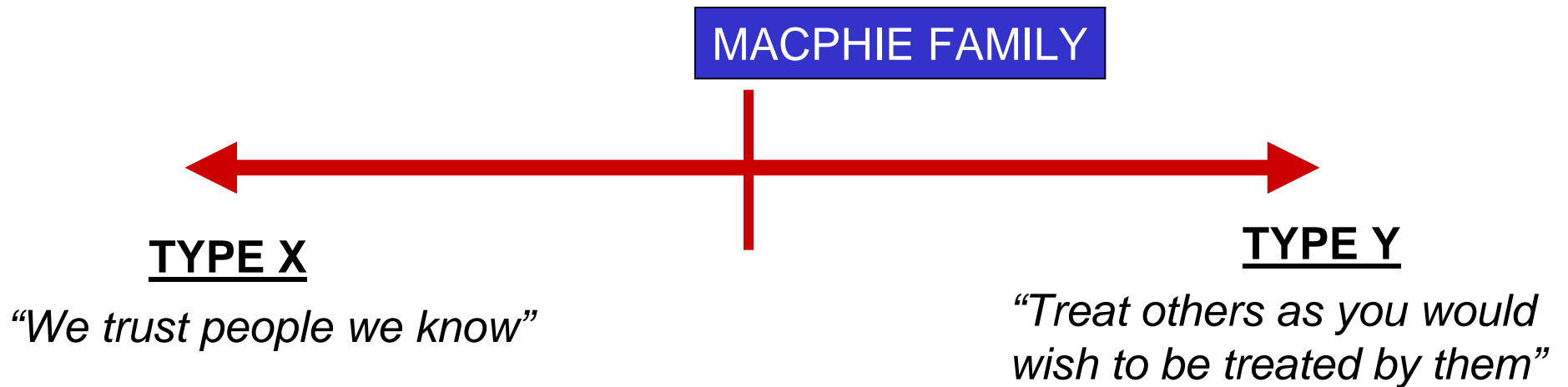
# Glenbervie



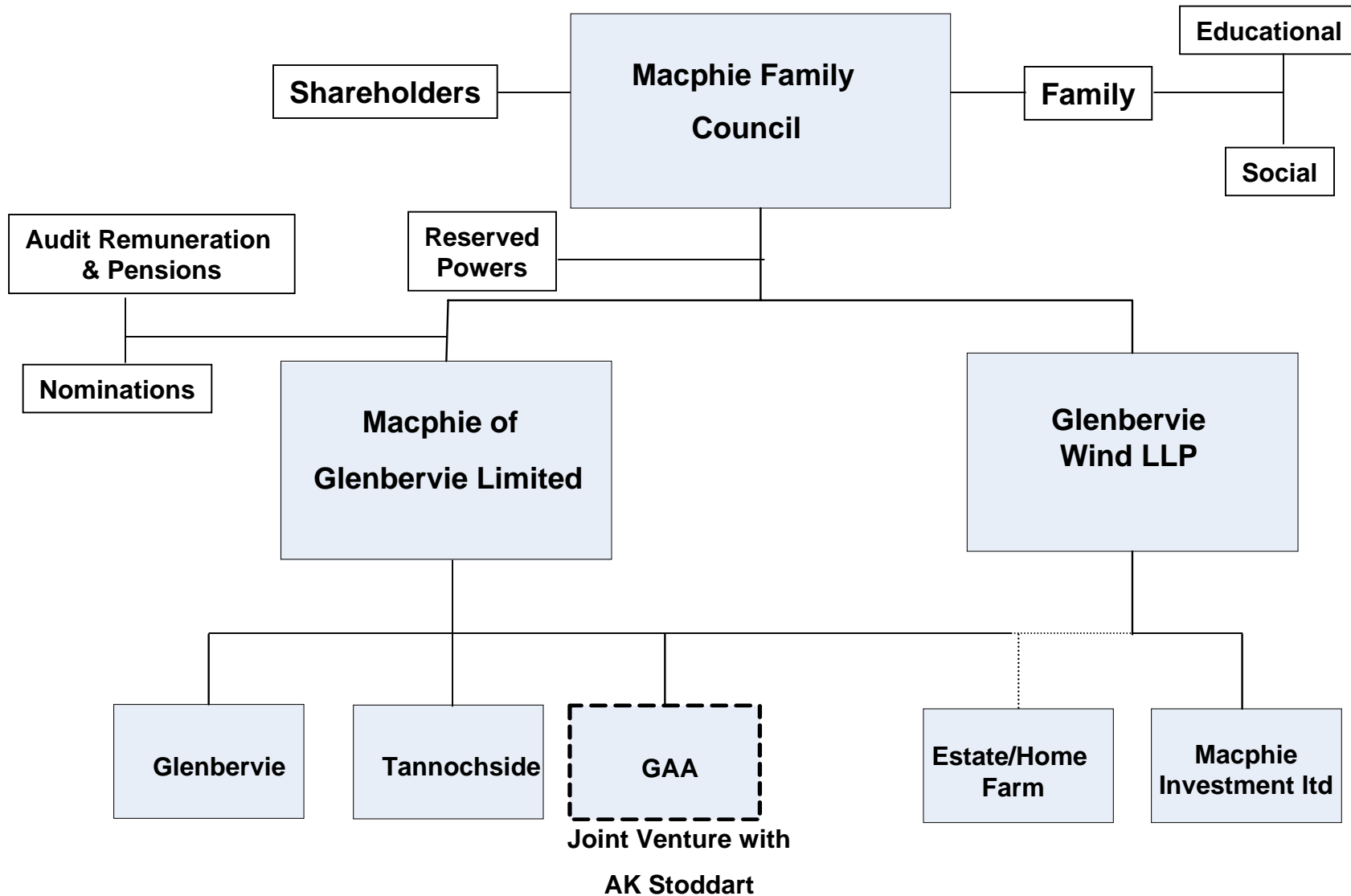
# Macphie Family Enterprise

- Glenbervie Estate
- Macphie of Glenbervie Ltd. Turnover c£42 million (all B2B). Employees c280 (very low staff turnover)
- Glenbervie Aberdeen Angus Ltd
- Constructing renewable energy at Glenbervie

# The Trust Spectrum



# Governance of the Macphie Family Enterprise



# Macphie Shared Purpose

- To preserve the Family Legacy of owning Glenbervie estate
- To make a significant contribution to the local community
- To provide financial security for the family

# Macphie Shared Purpose

- Everyone is very clear about what matters
- Generates a strong sense of collective endeavour
- If any detail is vague, go back to the Shared Purpose  
and work it out

# Trust building process

- Process had to be about family, not me
- If I led the process would some suspect me of targeting a certain outcome
- What would I ask?
- How could I lead a discussion and fully participate?
- Neutral adviser with no stake in the outcome. I could then focus on my own views

# Trust building process

- Inclusive process to create the Family Constitution
- Seniors, next generation and board
- Everyone clear about norms of acceptable behaviour in ownership, family and business
- If you want to be trusted, here's what's expected of you. Mobilises everyone to support the system

# Family Business Solutions

## Trust in Governance

---

**London June 2010**