Institute for Family Business

Business, Energy and Industrial Strategy Committee
Corporate Governance Inquiry
Institute for Family Business Response

Executive Summary

- Family business is the backbone of the UK economy. Family businesses are long term, responsible with values at their core.
- Family business owners feel a connection and sense of responsibility towards their employees, communities and heritage.
- Formal and informal family governance structures compliment corporate governance.
- Culture is an important part of good governance, and best practice from the family business community should be shared with others to provide examples of good culture in action.

About the Institute for Family Business

The Institute for Family Business (IFB) is the UK's not for profit family business organisation, supporting and promoting UK family-owned businesses through events, networking, representation, thought leadership and research.

We work closely with family firms to support them in growing enterprises for generations to come. A central part of our work is to provide educational resources and events designed to support business owners and those who work in family business. We aim to champion best practice within the family business, and wider business, community and help others to learn from these examples.

Family business is the backbone of our economy, and the bedrock of our communities. In the UK, family firms generate a quarter of GDP and employ almost twelve million people. By their very nature, family businesses take a long-term view, built on long-term stewardship of people and resources. Their commitment to passing something on to the next generation is locked into their corporate DNA.

The family business sector is extremely diverse. Family businesses come in all sizes, and are found in all industries and across the whole country. There are almost half a million family firms in the East of England, over one hundred thousand in Northern Ireland, and over three hundred thousand in Yorkshire. Whilst the majority of family firms are small or micro businesses, there are over 16,500 medium and large firms.

Responsible Ownership

A long term outlook is at the heart of family business. Shareholders in family businesses often view their role as that of a steward, with an obligation to pass on their business to the next generation in a stronger state than they found it. They feel a sense of responsibility not only to future generations of their own family, but also to the legacy of their forebears, their employees, and the community in which they are based. The best family businesses recognise that this strength has financial and non-financial dimensions.

The family firm often represents not only a key part of a family's monetary wealth, but their heritage. To protect and build on this family owners are generally much more involved in the business than the typical investor. Successful families work to ensure that their shareholders' motivations and values are aligned, and that they act as responsible owners. But they also understand the importance of embedding these values, and this long term outlook, into the whole business.

We do not pretend that all family firms always get things right, but it is important to recognise that there are many examples of governance best practice within the family business community. And family owners often feel a greater, and more personal, need to ensure that strong values are upheld throughout their business because their own name is above the door. At the IFB we work to share examples of how values are lived within businesses, offer practical advice and build a community of responsible owners.

Family Governance

Good governance within successful family businesses has two components – family and corporate governance. Corporate governance covers the direction of the business operations, while family governance covers the frameworks and rules that define family members' roles and responsibilities, and how they interact with the business. Introducing the next generation to the principles around good family and corporate governance often starts at a very early age, learning values from grandparents and parents.

Family governance processes and procedures will vary depending on the specific characteristics of each individual family business, but there are some common structures. These have developed naturally as families look at how to ensure their business continues to take a long term approach to investment, and plays a wider role in society. It is essential that families have the flexibility to introduce these structures as best suits the unique requirements of their family and business, to best meet the needs of their employees and community.

Some families establish written policies, or constitutions, to define their roles and responsibilities as family members and shareholders and to establish rules around family members working in the business, succession and share ownership. Larger families, particularly those with a greater number of shareholders, may establish a family council or assembly to help a family find consensus, act as guardians of the family's values, to maintain a strong shared long term vision and to communicate effectively with the Board.

Successful family businesses will view their family governance as something which must continue to be reviewed and updated as the business, and family, grows. We see many examples of family businesses who view discussions of shared sense of purpose as a central component of their family governance, to ensure the family agree about why they are in business together. This has a direct and unique impact on their attitude to share ownership, reinforcing their sense of stewardship and attachment to the business.

Culture within business is a key component in how a business, and its employees, behave responsibly. In family business this culture often originates from the family's values, and should then be reflected in the work of the Board. Where failings have arisen in other business types, this has often originated in the culture and values of the business and its investors.

Boards and Directors

Good family and corporate governance are complimentary. Family and Board members feel a sense of accountability not only to existing shareholders, but to their forebears, staff and communities to not only build a successful company but to do that in a responsible way that brings benefits to the wider community. Whilst many family firms are small or micro businesses, and as a result may not have non-family non-executive directors, we believe that family businesses can benefit significantly from appointing independent non-executives.

Non-executive directors can bring in new skills to compliment those of existing family board members, as well as playing an important role in challenging decision making as well as supporting the family and next generation. A recent report by the Institute for Family Business Research Foundation also found that those family businesses with non-family Board members were more entrepreneurial. It is important that governance is understood and promoted not only as a means to prevent undesirable behaviour, but also as a way to enhance growth.

For a family business to thrive it is essential that there is excellent communication between executives, the non-executives and the family. It is essential that each of these groups understand the work and values of the others, and through this a strong culture of responsibility can develop. Family business executives and non-executives traditionally stay with the business for longer than those in non-family businesses. This gives them a different perspective on long term investment and decision making. A study from North America found that the average tenure for family business CEOs is four times longer[1]. This culture of long term commitment to the company is an important component in supporting family firms in taking the long view and building sustainable businesses.

We believe that more information is needed to better understand the proposals to include workers representatives on Boards, as those countries which have introduced this have very different company structures. UK companies operate unitary Boards, for example, which is a different system to that operated in Germany and the Netherlands. This is an important issue, and we would welcome the opportunity to work with Government as they develop their thinking.

Best Practice

In relation to the existing regulations referred to in the inquiry Terms of Reference, we broadly believe that the current regulations are clear and that where changes may be needed these rest within an individual company's culture and values. It is essential that any changes designed to curb behaviours in other parts of the economy do not inadvertently penalise family businesses which are already acting responsibly. Government must avoid implementing a regime which acts as an excessive burden on those who adhere to both the rule and spirit of business regulations, and consequently stifles investment and growth.

We believe that there are examples of best practice within the family business community, and from these lessons can be learnt by other types of business. Sustainability, custodianship and long termism are core values which unite family businesses.

The important role of shareholders, and wider family members, in shaping the culture and values in the business, in particular, offers an example for other businesses. Shareholders in family businesses have an attachment to their business which goes beyond financial considerations, to a deeper more personal connection. Whilst there is an inherited connection, many leading family businesses look

---

[1] "*The average CEO tenure at family-run businesses is said to range between 15 and 25 years, while that of the typical public, nonfamily-controlled business leader has reduced to three to four years*": Isabelle Le Breton-Miller, Danny Miller and Lloyd P. Steier,"Toward an integrative model of effective FOB succession", *Entrepreneurship Theory and Practice*, Volume 28, Issue 4, (2004) 305–328.

to develop their purpose in other areas to build a strong connection between the family and the business. This may be through work in the community, a commitment to environment sustainability or some other means. Listed businesses could look to the efforts made by family businesses to engage and inspire shareholders as a means of improving investor relations, and perhaps inspiring a relationship less driven by short term financial results.

For more information contact Fiona Graham, IFB Communications Director, at fiona.graham@ifb.org.uk.