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How can corporate governance help grow family owned businesses (FOBs) in Jordan?

Today's economic and political climate in the middle east region makes it more important than ever for Jordanian family owned businesses to put into practice effective planning and corporate governance frameworks so to guarantee the success of their businesses.

The vast majority of businesses in Jordan are owned and controlled by families; it is estimated that 90 percent of businesses in Jordan are family-owned. Mainly, family owned SMEs are the backbone of Jordan's economy and so their sustainability is very important to Jordan's economic growth.

However, the life span of family businesses is alarmingly short. The second Family Business Conference that was held in Jordan in 2010 stated that the life span of family businesses in the Arab world is 24 years; only 30% pass on to the second generation, only 10% pass on to the third generation, and after that only 3% survive past the third generation.

The adoption of corporate governance framework is not common in Jordan because of the misconception that adopting corporate governance requires high costs with no guarantees that these costs will generate benefits to the family business. Even though it is true that applying corporate governance adds additional costs – albeit nominal - such as appointing independent directors, developing internal control system and performing external audits, however, these costs are outweighed by the long term benefits acquired from applying corporate governance.

The table below shows the drivers and resistors to corporate governance in a family business:

Drivers for corporate governance	Resisters to corporate governance
• Focus on the interests of the organisation	• Self-interest, hidden agendas
• Need to allocate power to get results	• Urge to consolidate power
• Need to achieve sustainability	• Desire to have quick results
• Managing risks	• Manipulating risks
• Picking 'horses for courses' to win	• Protecting favourites
• Deregulation/giving freedom to act	• Regulation/control
• Ensuring security of agreements	• Ends justify the means/utilitarianism
• Maintaining high standards	• Relativism – 'what suits'/complacency
• Ensuring fairness between stakeholders	• Courting popularity for own ends
• Openness	• Secrecy
• Innovation/self-renewal of the organization	• Resistance to change
• Commitment	• Disengagement – 'too much trouble'
• Leadership from all stakeholders	• Napoleonic leadership
• Trust/reputation	• Distrust/protectiveness

Forces impacting corporate governance - Source: Davies A. (2011)

Family businesses have unique characteristics that make them outperform non family counterparts and serve as advantages such as their high level of commitment, increased loyalty, vigilance, competitiveness and nimbleness. Another appealing characteristic of family businesses is their light use of bureaucracy that gives them an aspect of speed and flexibility in solving their business problems. Due to the family's intimacy and informality, elaborate decision-making methods become unnecessary. Nevertheless as the family business grows, they might not recognize how the growth of the business is changing them. The irony here is that the self-same characteristic that gives family businesses their competitive edge also contributes to the destructive conflict that could happen to the business. The lack of formal rules and systems facilitate easy and quick decision-making but it can also be a problem to the introduction of good corporate governance. (Jordaan, 2012)

Family owned businesses deal with significant challenges that range from succession planning, ownership and management, transition between generations, role confusion, absence of clear policies and business norms, and many others. Corporate governance provides good solutions to those challenges faced on both family and business levels. By applying a sound corporate governance framework, family businesses can become aware of these challenges and develop strategies that insure their long term success and continuity.

Sir Adrian Cadbury (2002) defined corporate governance as being "concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society." It is therefore reasonable to study the impact of corporate governance on the performance and growth of family owned businesses.

So how can corporate governance help family businesses grow?

1. By following corporate governance practices, greater value is created for the future. By implementing a good corporate governance policy, the family businesses' performances will be positively affected in the long run. Moreover, it will safeguard family businesses against unanticipated financial turmoil.

   Corporate governance is concerned after all with the procedures, attitudes and decision making processes that help family businesses in realizing their goals. It is through such framework that decisions should be made and power exercised. By giving greater thought to corporate governance, family businesses seek to improve their professionalism and sustainability of their activities. This is very important especially when the family business wishes to move away from reliance on the unique involvement of their founding father. Even though the dynamism of this single individual may have been very influential in establishing the business, this is unlikely to remain sustainable in the long run as the business grows in size and maturity. It is very important that governance processes are created to ensure the continuity and success of the family business beyond the efforts of one individual.

2. Corporate governance can become a rising issue as they develop new sources of finance. At first, the main source of funds is more likely to be from retained earnings or internal networks. However, family businesses may turn to banks, venture capitals or investors to finance their growth. This is when applying a clear corporate governance framework becomes essential, because external financers will need assurance that their investments will be well managed.

   Also, having a clear differentiation between the roles and responsibilities of board members and the management as well as a clear succession plan will help the family business improve its prospects, performance and value. These measures will help attract investors by acquiring their trust through external credit facilities.

   As the company grows and more owners become involved, governance mechanisms are much needed to resolve differences between the shareholders with possibly conflicting agendas.

3. Corporate governance can build the reputation of family businesses in line with communal expectations. The public's demand for improved corporate accountability and transparency has amplified following the recent financial crisis and has become an increasing interest for both the media and society. Having sound corporate governance regimes can play an important role in gaining the respect of employees, customers, the local community, etc. It provides a "license to operate" because it gives a somewhat reassurance to external stakeholders that the business is being run in a responsible and appropriate way.

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4. Corporate governance helps manage patient capital and illiquidity risks of unlisted family businesses. Shareholders of unlisted companies are naturally constrained when it comes to selling their ownership stakes because these shares are not traded on public equity markets. Also, the company law does not allow the sale of non-listed company shares to the general public. Other constraints may be by the shareholders themselves through shareholder agreements or company articles of association. Therefore, shareholders might sometimes find themselves in an uneasy situation of being "confined" owners. This lack of liquidity position holds shareholders with a considerable investment risk. Consequently, investors become forced to commit to the business for a relatively longer met. Having an effective corporate governance framework provides a way to mitigate such risks. It reassures shareholders that even if there is no easy exit from their stakes, their interests will continue to be respected and protected by the board and management of the company. As a result, investors are more likely to invest in the family business and become more contented in their role as a patient capital partner.

Nuqul group is a real life example on how corporate governance can help family businesses grow. The Jordanian company is a producer of manufactured goods. Nuqul group realized that by establishing a solid corporate governance structure it can expand and attract partners and investors. Throughout their process of doing so, they set the stage for a smooth succession between generations by making sure everyone understood their roles, responsibilities and rights. The company started out in 1952 as a small trading company and is now a conglomerate of over 30 companies with around 6000 employees. According to the vice chairman of Nuqul, such level of growth could not be possible if it wasn't for the improved corporate governance practices. (CIPE, 2011)

It is important to note that corporate governance does not take away from the unique advantages of family businesses but rather builds on that to ensure that family businesses leverage their strengths and work on their weaknesses.

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