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THE BUSINESS NEWSLETTER FROM AUSWILD & CO  
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## **8 Governance Tips from Big Business to SMEs**

Good corporate governance is not just a concern for businesses at the big end of town – it should also be addressed in family businesses and SMEs too.

Corporate governance expert Robert Tricker once said “management is about running the business, governance is about seeing that it is running properly” – and, indeed, for SMEs and family business owners, ensuring the business is running properly is perhaps even more of a priority than for large businesses, as it can have direct consequences for the owners and their family members, regardless of whether they work in the business or not.

Governance can generally be defined as the rules, relationships, systems and processes within and by which authority is exercised and controlled within corporations (businesses). It encompasses the mechanisms by which companies, and those in control, are held to account.

The Australian Stock Exchange has developed eight corporate governance principles and recommendations. Whilst these have been drafted with companies listed on the ASX in mind, they are relevant for all businesses.

### **1. Lay solid foundations for management and oversight**

This relates to establishing the roles and responsibilities of the management and the board and how their performance is monitored and evaluated. Separating ownership and management is a significant change for many family businesses as they grow, and may include the appointment of non-family members to key management roles.

Ensuring the responsibilities of each role are clear will add value, strength and transparency to the business. By delegating responsibility of the day-to-day running of the business to managers, both owners and the board can have more time to work ‘on’ the business rather than ‘in’ it.

### **2. Structure the board to add value**

The board should be of an appropriate size, composition, skills and commitment to be able to effectively discharge its duties. There is no “one size fits all” approach to governance.

Some families may want to set up a formal board of directors, whereas other families may wish to start with a family council. Families often see value in having non-family directors to provide additional expertise and perspectives.

Whether the approach to governance starts out small, or takes a more formalised approach, it is important that the size and composition of leaders and advisers is right for the business.

### **3. Act responsibly and ethically**

All businesses have a responsibility to their stakeholders for ethical and responsible decision making. Stakeholders include owners, employees, customers, suppliers, lenders, and the community, whether family members or not.

## 4. Safeguard integrity on financial reporting

Family businesses have some family members working in the business, and others who do not. Those involved in management are accountable to those who are not, to ensure that the financial reporting is properly resourced and independently verified to avoid conflict within the family.

## 5. Make timely and balanced disclosure

The timeliness of reporting of material matters to all relevant parties is imperative to the success of all businesses.

## 6. Respect the rights of shareholders

In many family businesses, the shareholders are involved in the management of the business. Shareholders, as the ultimate owners of the business, must always be considered.

Family businesses may have shareholders not involved in the business, and/or non-family shareholders, and their rights must not be ignored.

## 7. Recognise and manage risk

All businesses should establish systems to reduce risk. Larger businesses have formal risk minimisation processes while smaller businesses should regularly review the business risks.

Most small business failures come from not recognising and addressing the risks of the business. Systems to tighten internal controls will increase transparency and can reduce the abuse of 'family privileges'. A business adviser can assist with review and implementation of risk management and internal control systems.

## 8. Remunerate fairly and responsibly

Many families in business have a policy, formal or not, regarding family members working in the business. Family members who are employed in the business may expect to be remunerated at commercial rates, however an excess of what is reasonable may cause conflict with family members who are not employees. It is important remuneration is clearly linked to performance to provide transparency and credibility to family members not employed, and non-family shareholders and employees.

Many family business owners don't do anything about governance due to fear – fear of losing control, of the unknown, of the additional work involved. But this should be outweighed by the fear of not doing anything. By not addressing governance, business owners may be lessening the value of their business, falling behind competitors or leaving behind problems for the next generation.

*Adapted from an article by Kirstin Stewart, partner at HLB Mann Judd Perth published on [www.mybusiness.com.au](http://www.mybusiness.com.au)*

## **ausNEWS! ausNEWS! ausNEWS!**

*Birthday Greetings go to **Wayne Morgan, Mark Woodley and Sally Oakman** who celebrate special birthdays this month. **Happy Birthday** to you all.....**Congratulations** go to **Tom Kelly** and the team at **Peter Kittle Holden Port Adelaide** for winning the **Power Torque Finance National Dealer of the Year Award**.....and our **Condolences** go to the **Gaha Family** on the passing of **Robert Gaha**. Our thoughts are with you at this sad time.*

**Important:** This is not advice. Clients should not act solely on the basis of the material contained in this bulletin. Items herein are general comments only and do not constitute or convey advice per se. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. This bulletin is issued as a helpful guide to clients and for their private information. Therefore it should be regarded as confidential and not be made available to any person without prior approval.