

Introduction

Who's With You And Our Approach To This Discussion



Aaron Jay Dason

Role

Risk Advisory Myanmar, Corporate Governance, Risk Management, and Internal Audit Leader

Years of Relevant Experience

7

Cross-Border Work Experience

Malaysia, Thailand, Vietnam, Singapore, Indonesia, and Myanmar

Primary Location

Yangon, Myanmar

Professional Accolades

- Association of Chartered Certified Accountants (ACCA)
- Chartered Member of the Institute of Internal Auditors (IIA)
- MSc Strategic Project Management (University of Heriot Watt)

- 1 Defining Family Businesses
- 2 Findings From Deloitte's 2019 Family Business Survey
- 3 Role Transitioning Challenges And Ways Forward
- 4 Governance and Risk Management Complexities In The Local Market & Steps Forward (Local Examples)
- 5 Covid-19: Success Story And A Management Tool For Business Model Changes

Family Business

Definition

Family Business

What Is Family Business?

Family business is a company in which family members have effective control over its strategic direction. The family business significantly contributes to the income, wealth, name and goodwill of the family.

- Institute of Internal Auditors (IIA)

Listed companies meet the definition of a family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25% of the right to vote as mandated by their share capital.

- Institute for Family Businesses

A family business refers to a company where the voting majority is in the hands of the controlling family; including the founder(s) who intend to pass the business on to their descendants.

- International Finance Corporation (IFC)



Family Business

Findings From Deloitte Global Family Business
Survey 2019

Family Business

Deloitte's 2019 Family Business Survey



Between 14 January and 20 March 2019, Deloitte's Family Business Center polled **791 executives** of family-owned businesses from **58 countries** around the world (including Myanmar).

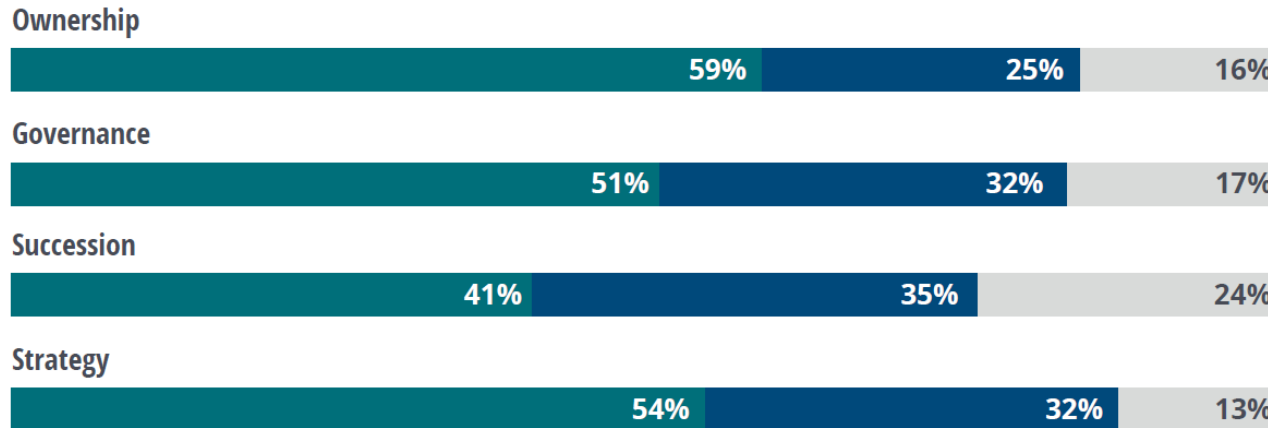
We asked them:- ***how they balance their long-term orientation with short-term demands to support their organization's continued success?***

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Findings From Deloitte Global Family Business Survey 2019

Q1: How ready is your company currently to meet the challenges of the next 10 to 20 years in each of the following areas?

■ Ready ■ Neutral ■ Not ready



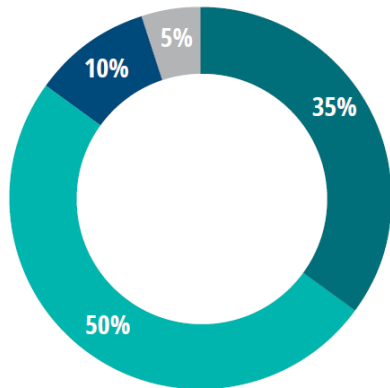
*"A little more than one-half believe their organizations are fit for the future in terms of ownership, governance, and strategy — but only **41%** have confidence in their plans for succession."*

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Findings From Deloitte Global Family Business Survey 2019

Q2: Does the long-term plan of the company integrate with the objectives of the business and the individual and shared goals of all your family members?

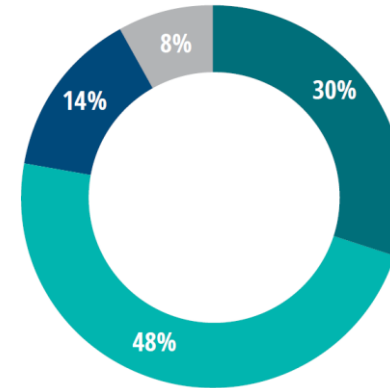
■ Fully agree ■ Partially agree ■ Disagree
■ Don't know



*"Only **35%** of respondents said that business objectives align with family goals."*

Q3: Is your family in agreement about the future development of the company over the next 10 to 20 years.

■ Fully agree ■ Partially agree ■ Disagree
■ Don't know

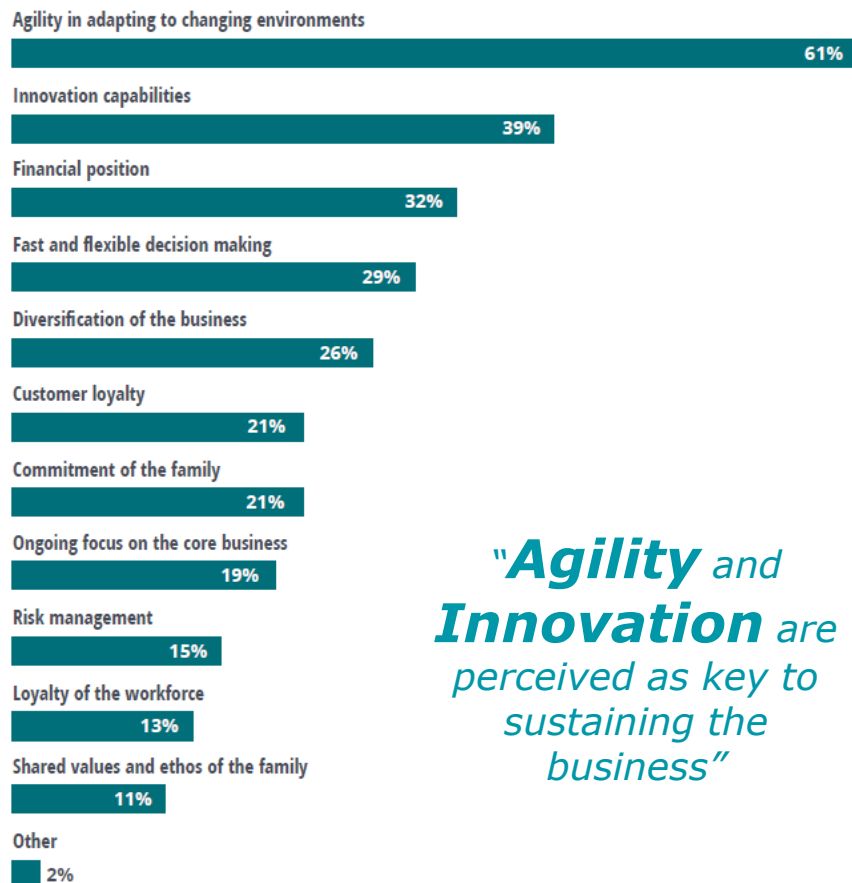


*"Only **30%** of respondents said that their families agree about the business's future development."*

Family Business

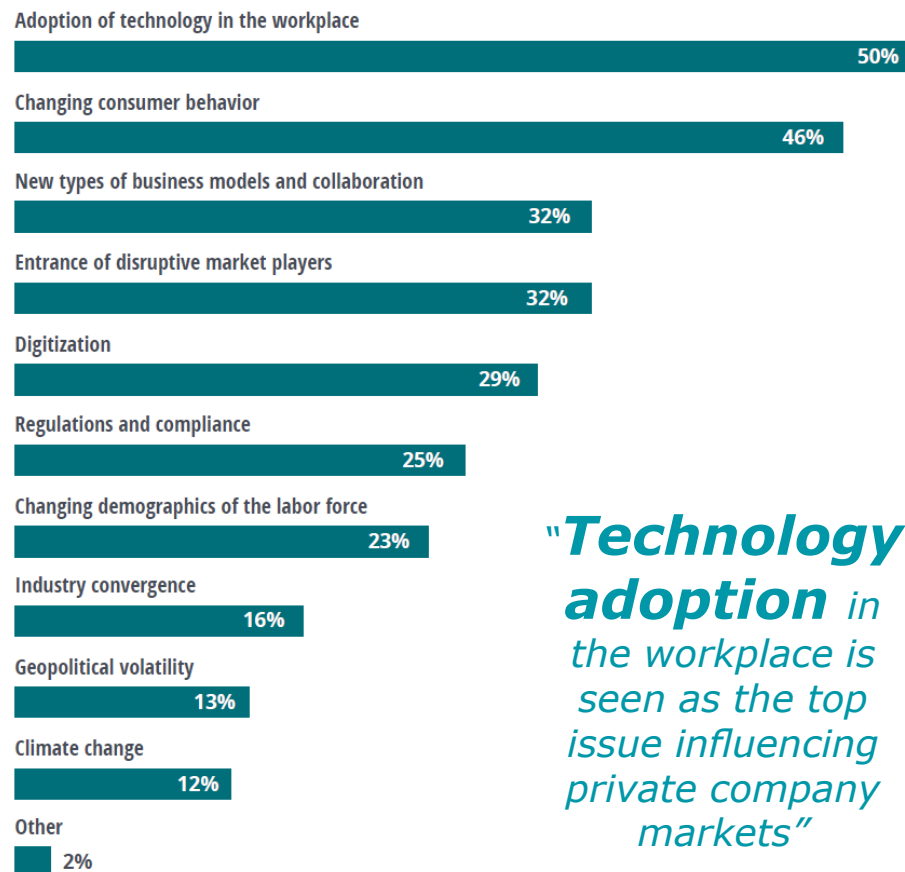
Findings From Deloitte Global Family Business Survey 2019

Q4: What are the key elements that will drive the sustainability of your company over the next 10 to 20 years?



“Agility and Innovation are perceived as key to sustaining the business”

Q5: What are the significant issues that will influence the market your company currently operates in over the next 10 to 20 years?



“Technology adoption in the workplace is seen as the top issue influencing private company markets”

Family Business

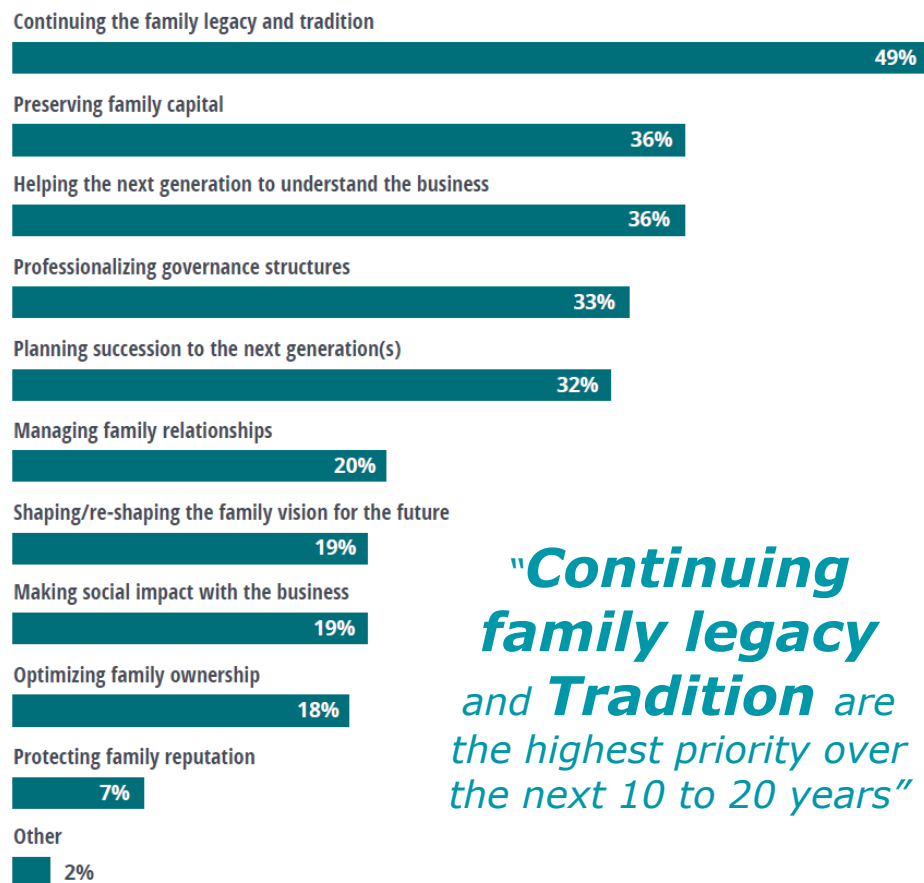
Findings From Deloitte Global Family Business Survey 2019

Q6: What are the top priorities for your board of directors over the next 12 months.?



“Financial performance and Growth are the top two priorities for the next year”

Q7: What are your family's priorities for your company over the next 10 to 20 years?



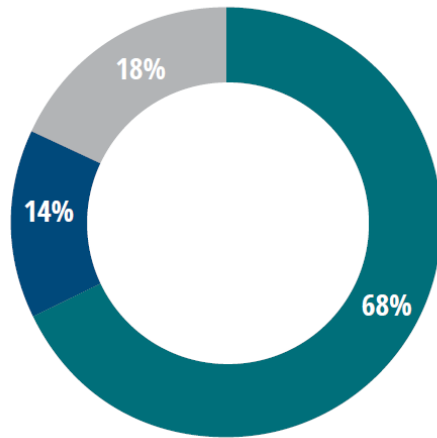
“Continuing family legacy and Tradition are the highest priority over the next 10 to 20 years”

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Findings From Deloitte Global Family Business Survey 2019

Q8: Is the ownership of the company expected to be handed down within your family?

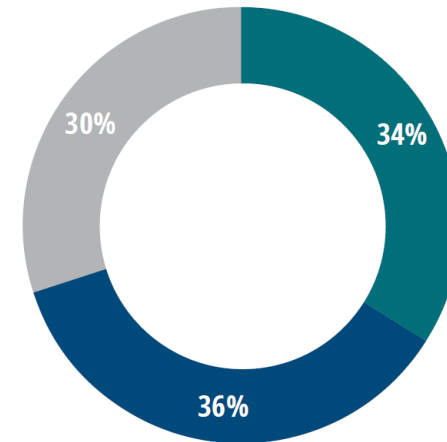
■ Yes ■ No ■ Don't know



*"Almost **70%** of respondents want to keep the business within the family."*

Q9: Would you trade family control for greater financial success in the long term?

■ Yes ■ No ■ Don't know



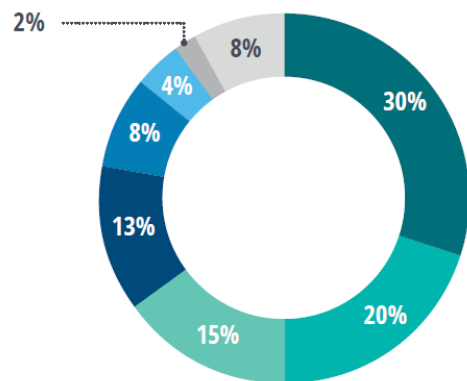
*"About **34%** of respondents would give up control over the family business in exchange for greater financial success"*

Family Business

Findings From Deloitte Global Family Business Survey 2019

Q10: How should leadership succession take place in your company?

- Passing the governance (management AND ownership) of the company to the next generation
- Passing the ownership of the company to the next generation
- Appointment of a non-family leader, retaining family ownership
- Passing the management of the company to the next generation (but not the ownership)
- Sale of the company to a third party
- Appointment of a non-family leader, giving away part of the family ownership
- An Initial Public Offering
- Don't know



"65% of respondents would prefer to keep company ownership, management, or both within the family."

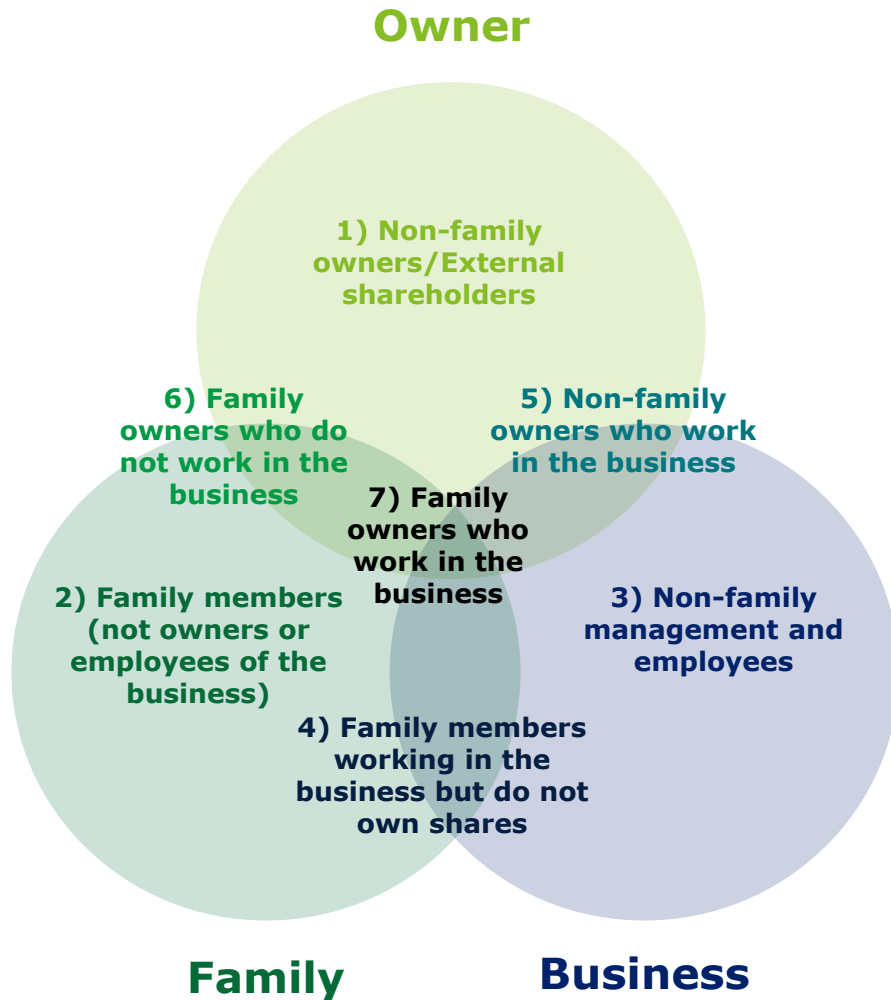


Challenges For Family Business

Role Transitioning

Challenges Of Family Business

Family Business Complexities



Your Thoughts?

Factors Prohibiting Smooth Transition and Business Continuity



Transitioning Of Roles

Things Prohibiting Smooth Transition And Business Continuity

- *Founders not clearly defining qualifying criteria for successors*
- *Founders afraid of becoming irrelevant*
- *Next Gen is inexperienced, unskilled, or not financially literate*
- *Successors too eager to make changes*
- *Next Gen with radically different vision for the business*
- *Founders afraid or skeptical towards change*
- *Micromanagement post succession*
- *Next Gen not understanding the underlying principles and values in which the business is built on*

“When we took over, we made a pact that we wouldn’t argue about little things. We get along because the business is more important than who’s right and who’s wrong.”

Judith Lowry, one of three second-generation sisters, Argosy Book Store in New York City



Transitioning Of Roles

What Can We Do About It?

- *Establish a clear vision with a way forward and milestones*
- *Be clear on the differences between Board and Management roles and set clear expectations and requirements for successors*
- *Establish Next Gen development and grooming programmes*
- *Monitor and track progress of Next Gen against succession criteria*

"You have to allow innovation even if you don't understand it in the now."

**Roland Mack, Founder of Europa-Park and
Owner of Mack Rides**

"Any company owner that wants to grow their brand has to delegate. Giving people their responsibilities is the only way to develop a company unless you have superpowers of course!"

Anna Gaia, CEO of Utopia, Italy



Corporate Governance & Risk Management

Local Challenges And Steps For Improvement Towards Governance And Risk Environments

Corporate Governance & Risk Management

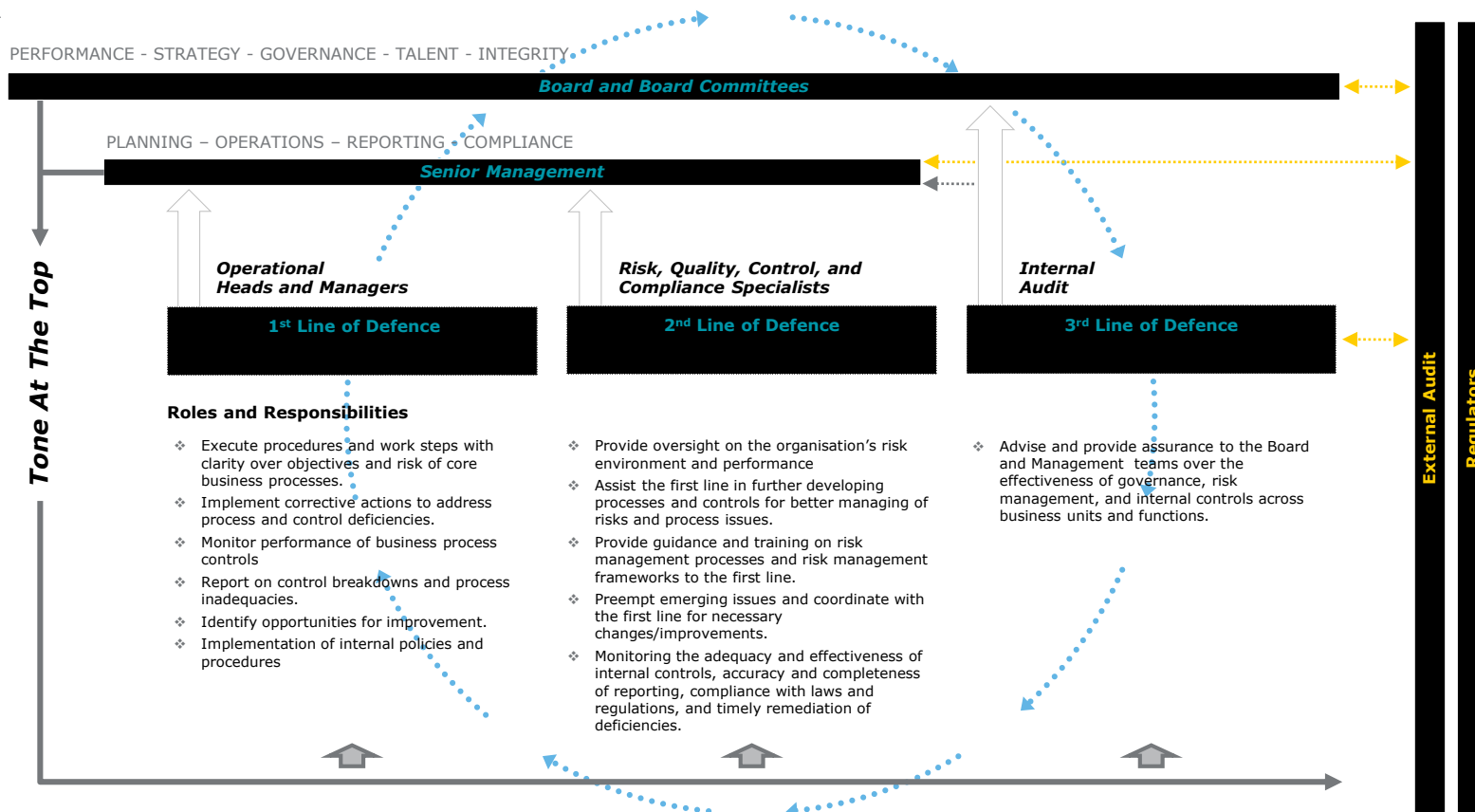
Key Players And Their Roles

Knowing The Key Players In Your Organisation

Organisations are complex structures consisting of various groups with each their own unique set of roles and responsibilities and objectives. Whilst these various groups are unique, they share in common, the overall mission and vision of the organisation. All groups and all layers within each group operate within the Governance and Risk environment. This environment is influenced, directed and controlled by both internal and external parties to the organisation.

The framework beside illustrates the groups in place to support Senior Management and the Board and its Committees (overseers) who have shared responsibility and accountability over organisational governance and performance.

Both Senior Management and Boards and Board Committees have responsibility and accountability to ensure that governance frameworks, policies, procedures, systems, and practices are fit to business needs and the operating environment. These top-down establishments serves as the bedrock for Operational Managers to effectively perform their duties, and in turn also, the foundation in which Risk & Compliance Specialists position themselves to lend their specialist support. Internal Audit ("IA") whilst sharing similar goals for the organisation, are unique in the sense that the function acts as trusted independent advisors who abide strictly by principles such as integrity, objectivity, and confidentiality. IA can consist of multi-skilled/disciplined personnel, thus exponentially increasing the likelihood of organisational value to be preserved and created.



Governance And Risk Management

Common Complexities Within The Local Market

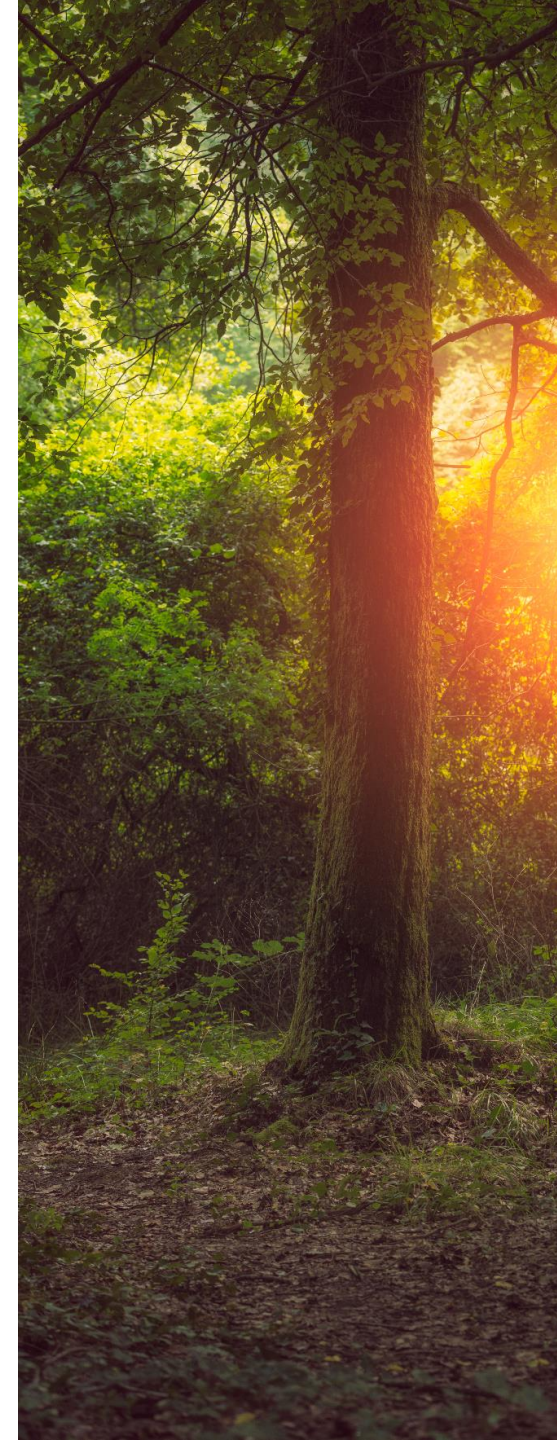
10 Common Complexities Faced By Local Organisations

Market trust, transparency, accountability, and effective decision making are among others the outcomes of good governance and risk management practices. Leading companies leverage on these outcomes for scaling and expanding influence and reach. Below are 10 common governance and risk matters local organisations are faced with overcoming.

- *Overlapping of roles and responsibilities (Board and Management Duties)*
- *Boards not fit or effectively composed to oversee, guide, and constructively challenge Management*
- *Middle and Junior Management teams without sufficient accountability and responsibility*
- *Boards and Management teams not knowing or understanding the organisation's risk environment*
- *Familial ties causing conflicts of interest in decision making*
- *Over reliance on a small number of personnel and redundant/outdated processes*
- *Weak commitment towards "sustainable" internal and/or external supply chains*
- *No or weak channels for confidential communication and employees afraid/unwilling to speak-up*
- *2nd and 3rd lines of defence without authority and/or competence to fulfill independent assurance needs*
- *Disagreement between leadership over new ventures and the level of associated risk accepted*

Weak oversight, inaction, or poor control over any of the above can have damaging consequences to the achievement of the organisations short and long term objectives. Potential implications arising from failure to put into place measures for effectively governing the above can bring about implications financial and/or non-financial. As all organisations are unique when considering their purpose and internal structure, a "one size fits all" approach for addressing issues is not encouraged, but rather, when addressing each and any one of the above issues, careful study and analysis over resource constraints, organisation objectives, intended outcomes, and risk is strongly recommended.

The following page highlights notable governance and risk actions some local organisations have taken in order for greater market trust, transparency, accountability, and improved decision making.



Governance And Risk Management Steps Forward Taken By Local Organisations

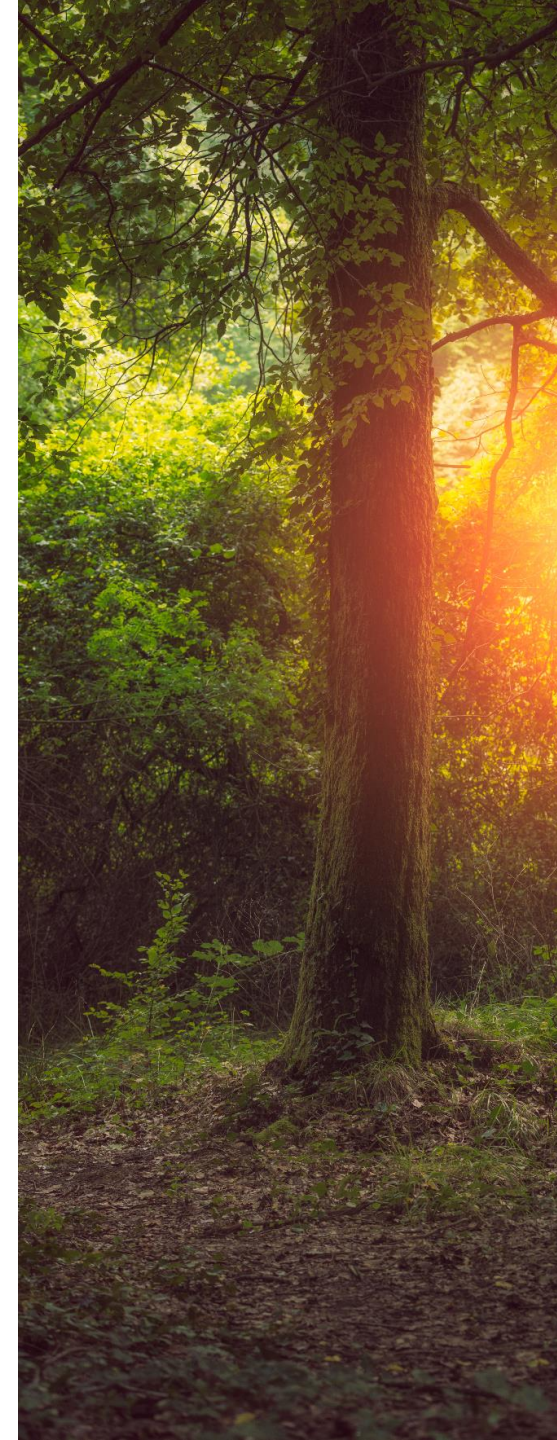
8 Notable Actions By Leading Local Organisations

- *Leadership consensus over objectives, risk environment, appetite, tolerance, and responses*
- *Board member independence and confidential channels for communication*
- *Clarity and separation between Board and Management roles and responsibilities*
- *Empowering of middle and junior level Management personnel*
- *Empowering and building of capacity and capabilities of Internal Audit*
- *Gradual implementation and enforcement over supply chain sustainability (internal and external)*
- *Commitment to an inclusive culture centred around team camaraderie and growth*
- *Succession plans for key roles within the organisation*

Local organisations are encouraged to take a pragmatic approach towards improving their own governance and risk environments. Road-map planning and cost-benefit comparisons between business objectives and improvement initiatives is often a useful exercise organisations can lean on in order to know when precisely to address its most pressing governance and risk related issues.

Corporate Governance and Risk Management are top-down based systems that are intended to influence, direct, and control resources of the organisation towards objectives in pursuit. This top-down system commonly referred to as the “tone at the top” is dictated by the Board and Senior Management or Boards alone. Whilst the Board of Directors remain accountable for matters pertaining to Corporate Governance, groups and sub-groups within organisations have also to an extent shared responsibility and accountability for preserving and further improving the overall governance and risk environments. Global practices and standards around Corporate Governance and Risk Management will almost likely always continue to develop as markets around the world grow in size, complexity, and reach.

Whilst changes to standards and practices may take place, the underlying theme, rationale, or purpose behind good Corporate Governance and Risk Management is expected to remain; and that is for organisations to be sustainable in their approach towards achieving objectives, and realizing their mission and vision statements.



Covid-19

Responding Towards Need For Change To The
Business Model

Covid-19

Family Business Success Story

The organization

- Frozen foods producer operating since the early 90's.
- 75% of revenue derived through export sales.
- More than 500 employees.
- Average net profit margin of 35%.

Effects of COVID-19 to the business

- Unable to sell/ship products to overseas customers which account for majority of sales during typical periods.
- Unabsorbed fixed costs/cash flow constraints.
- Idle manpower in both cost and revenue centres.

Key Actions Taken

- Leveraged on existing partners to locate demand in the local marketplace.
- Close communication with overseas customers on their expectations post Covid and heavy emphasis on Research and Development initiatives to meet post Covid expectations.
- Setting and communication of new goals and increased interaction with department Heads and employees.
- Repositioning of idle personnel into support and/or new roles and reduction of approval bureaucracies.
- Empathy focused leadership.

Outcomes Realised

- Discovery of untapped opportunities in the domestic marketplace.
- Trust with international partners maintained if not increased and greater odds of continued trade once markets return to some level of normalcy.
- Motivated and engaged workforce working with a clear direction forward.
- Back-to-back achievement of 30% N.P. margin since lockdowns.



Covid-19

Discussion Tool For Responding Towards Need For Change To The Business Model

The Business Image and Value Proposition	Core Processes, Activities and Controls	Assets / Resources
<ul style="list-style-type: none"> How are existing target markets responding to our products/services? And, what would it take for our products/services to be "must-haves" during this period? How can our existing products/services be modified to suit customers' needs during this period? Are there partnerships worth exploring? How are our competitors responding? Has this shift in the business landscape given rise to new competition? How are we keeping watch over this? Have we been effective in communicating our interim agenda to both our internal and external stakeholders? How can we stand out and be remembered post Covid-19? 	<ul style="list-style-type: none"> Which core internal processes/activities must be preserved and protected at all cost? Are our health and safety emergency response systems effective? Do our response teams have the right tools, experience, and exposure required to operate effectively? Are our front-liners provided with the right safety tools, equipment, and training? Which processes/activities of our non-core internal processes/activities can we put on pause for the moment? And, how can we best utilise manpower resources that will potentially be idle? Which of our process controls can we not afford any compromise? And, do we have sufficient visibility and emphasis over these controls? Have PICs and reporting requirements been identified/defined? Is there a need for additional IT system access controls in order for greater security under remote working conditions? Are there multifactor authentication controls when logging into the company network? Have authority limits of personnel been revisited in order for greater speed/efficiency during this period? And, to what extent were segregation of duties and conflict of interest considered? Are our risk, compliance and ethics programmes being neglected? How has communication/reporting between Management and the Board changed during this period? 	<ul style="list-style-type: none"> How have we ensured that all personnel groups understand our interim objectives? And, how frequent should this be reinforced and by whom? How many of our personnel will potentially be idle during this period? And, towards what sort of initiatives can we allocate our idle personnel towards? Are loans of our assets and manpower resources to businesses in need an option? If so, which of our partners would most be in need and loans to whom would be most beneficial in the long run? With respect to granting leave of absences to employees, have we assessed short term benefits against long term implications? Is there a hotline for employees to access if they have concerns? Are hotline center employees trained and are their information sources reliable?
Partnerships		Customer Groups, Communication Channels, and Relationship Management
<ul style="list-style-type: none"> Which of our key partners are severely affected? And, how comprehensive/effective is their recovery plan? How have we continued to stay informed over our key partners' recovery/responses throughout this period? And, is this part of any team's specific responsibility? To what extent are we willing to assist our most key partners in order for us to meet customer demands during this period? And, would we be willing to replace key partners if need be? What do our force majeure/termination clauses say? 	<ul style="list-style-type: none"> Which of our current customer groups are more likely to require our products/services during this period? Are there groups necessary for us to temporary forego? Are there new customer groups worth pursuing during this period in order to maintain desired cash flows? Has this crisis led to our previously unreachable customer groups now being reachable? Are there opportunities to capitalize on? How have we incorporated the use of technology in assisting us identify and prioritise customers throughout this period? Have we identified the platforms on which our respective customer groups interact on? And, under which team's responsibility would interactions with these customer groups come under? How is our interaction with our existing customer base throughout this period? Have we put in place specific measures and targets with regard to maintaining and improving relationships with our customers? And, under which team's responsibility would this come under? 	
Income and Expenses		
<ul style="list-style-type: none"> What is the estimated impact of this situation towards original budget assumptions? Have financial plans taking into account multiple scenarios been established? And, have assumptions to these plans been reviewed and challenged internally? Have we established programmes for identifying and reducing nonessential expenses across all functions? What is the risk of obsolescence to our Raw Materials, Work In Progress, and Finished Goods? And, how close are we to the position whereby sales below standard margins should be realistically considered? Have we discussed with our lenders over relaxation to loan covenants and alternative debt repayment options/models? Is further lending possible and/or required? Do we have a realistic/targeted debt collection programme? Do we understand the position of our key customers with outstanding debts? And, are there any amounts which may possibly have yet to be billed? Is there a consistent understanding on which expenses are critical and are there sufficient controls for ensuring outflows are towards critical expenses? Have we considered discussing with our key strategic partners over payments ahead of normal terms? 		

Questions?

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