

9th Annual DFI Corporate Governance Conference



**CORPORATE GOVERNANCE
DEVELOPMENT FRAMEWORK**

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Mexico City

Corporate Governance in Family Businesses



**CORPORATE GOVERNANCE
DEVELOPMENT FRAMEWORK**



consejo coordinador empresarial



Introduction

- In 1994 México became a member of the Organization for Economic Cooperation and Development (OECD).
- En 1996, the “Business Advisory Group” chaired by Ira Millstein and Adrian Cadbury, submitted to the OECD the “Report on Corporate Governance”.
- En 1999, the OECD Ministerial Council, approved the Report and was published in the month of May, as the “ OECD Principles on Corporate Governance”.



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Introduction

- In 1998 the National Banking and Securities Commission (CNBV), formed the Corporate Best Practices Committee.
- In the beginning of 1999, the CNBV agreed that the Business Coordinating Council (CCE) were to be responsible for the issuing, updating and appropriate spreading of the principles and best practices on corporate governance in Mexico.
- The 9th of June, 1999, the CCE made known the Corporate Best Practices Code for Mexico, to the financial and business community.



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Introduction

- In november 14th, 2006, the Committee issued the first updated version of the Code, including the new recomendations of the OECD.
- The 28th of April, 2010, the Committee issued the second updated version of the Code.
- Actually, we are working on the third updated version of the Code, and is going to be named "Code of Principles and Best Practices on Corporate Governance".



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Introduction



- For the Code edition, the characteristics of the Mexican corporations, their mainly family origin, their values and culture, as well as their stock structure and the importance of certain shareholders in their management, were taken into account.
- The Code set forth the corporate governance standard and the different regulatory authorities considered what they deemed to be mandatory in order to be shaped and included in their jurisdiction legislation.



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Introduction

- ➔ Since 2001, we have counted on a “Questionnaire on Adhesion Degree on the Code’s recommendations”, that should be completed by publicly traded corporations, and it is used by authorities, rating agencies, investment funds and generally by corporations wishing to know how they progress in their corporate governance.
- ➔ It is worth mentioning, that our country has been the first to address the Code for all type of civil, mercantile and not for profit societies, with no distinction whether their shares are publicly traded or not. This has distinguished us, since most of the codes in the world are exclusively addressing the publicly traded companies.



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Principles

Disclosure

Transparency

Accountability

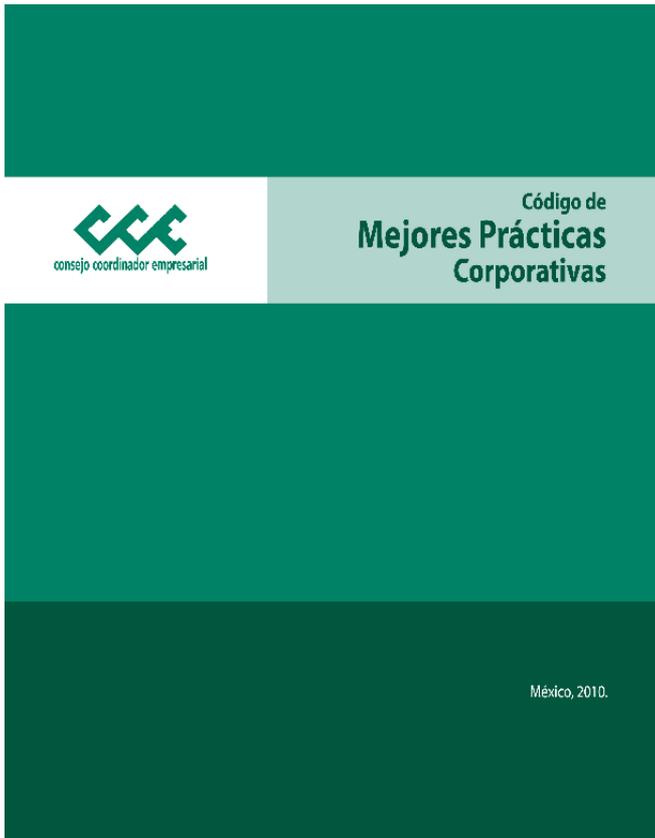
Integrity
and Ethics



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Best Practices Code



- ✦ 11 Principles on Corporate Governance.
- ✦ 51 Corporate Best Practices.
- ✦ Related to the integration and operation of the Board of Directors.
- ✦ 12 Annexes.



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Best Practices Code



In order to establish a common language in our country, the Code contains the Corporate Governance definition as it has been recommended by Ira Millstein and Adrian Cadbury, which is “The System under which the corporations are conducted and controlled”.

In the Code, the role of the Board of Directors and its supporting bodies is clearly set forth, and it indicates the CEO and its team corresponding functions.

This separation is basic for the Corporate Governance good functioning.



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Family Businesses



Addressing the family businesses, understanding the trilogy existing within the family, the societal law and the markets, is necessary.

A good market economy functioning requires an appropriate regulatory framework and the acceptance of risks by the entrepreneurs.

The process to create a corporation requires a free market economy and a long term vision.



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Societary Law

- ➔ Generally, it has been observed that corporations created in countries with an Anglo-Saxon corporate legislation, are more successful and sustainable than the ones formed in countries under a Napoleonic or Roman corporate law.
- ➔ Corporate governance culture originates in the Anglo-Saxon corporate regulation, and this is the reason why it is more straightforward to incorporate it, in countries with such type of regulation.
- ➔ Different regulations and entrepreneurial cultures have created different types of family businesses.



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Societary Law

- ➔ The Mexican corporate law emanates from the Napoleonic or Romanic law, and that is the reason why corporate governance is difficult to incorporate in our corporations, since we are talking different languages.
- ➔ For instance, under the Anglo-Saxon corporate law the surveillance function corresponds to the Board of Directors and the Audit Committee; in the Napoleonic law the surveillance function corresponds to the statutory auditor.
- ➔ There are legal figures that we should consider and we are not able to change them.
- ➔ Under process there is a proposal for modifications to our corporate law, in order to incorporate the corporate governance concepts related to the governance and surveillance function of Mexican corporations.



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Family Businesses

Family businesses are a fundamental element for social and economic development in countries.

They are a significant source to create wealth and jobs, in benefit of shareholders and stakeholders as well.

Family is the best transmitter of corporation throughout the generations, because of its culture, values and long-term vision.



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Family Businesses

When forming the family as an economic organization, is characterized for its legal transmission of its society ownership, which provides a sense of sustainability in the long term.

Along with the legal ownership, the way of being and thinking, the culture and the founding family values are also transmitted, which preservation constitutes the assurance for the permanence of the society in the long run.

The family must aim to the existence of “preserving agents” through the various generations in order to ensure the observance of these basic elements that provide sense and living to the family businesses.



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Family Businesses

- ➔ The family businesses must formalize its administration in order to be permanent in time.
- ➔ There must be agreements within the various family members in order to define:
 - The existence and future of the businesses.
 - The way of managing and monitoring it.
 - The respect to the rights of each family member.
 - The relationship between the family and the family businesses.
- ➔ It is important that there exist a family Formal Succession Plan within the family and in the family business, setting forth the characteristics of the family members that they will perform within the society.
- ➔ Clear rules must be established for the family members who wish to work at the family businesses.



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Family Businesses



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Family Businesses

- The family businesses compared to the non-family businesses has the following features:



- Its values and culture vs vision and mission.
- Its stock structure giving it a long term orientation, vs the short term of other type of stockholders.
- Its strategy focused in the creation and preservation of value in the long run.
- Its well-arranged growth and bearing risks in mind for its permanence in time.
- It considers that business value is the family legacy.
- It has a conservative management, since it does not expend more than earned, and it invests almost all earned money.



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Family Businesses

- Although with certain diversification, the most of them remains within the basic or core business.
- Diversification seeks to protect the family legacy.
- In crisis times, it accepts less capital return in order to guarantee the sustainability or permanence in time.



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Family Businesses

- In Mexico there is much work to do in and for the family businesses.



- A corporate regulation is required, one that includes the corporate governance culture.
- Strengthening of the free market economy, that a fair competence exist and the small and medium sized companies be able to growth.
- Supporting the development of entrepreneurs.



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Family Businesses

- In Mexico there is much work to do in and for the family businesses.
 - Counting on accessible financing for the small and medium sized companies that prove having clear objectives and a sustainability plan in the long term.
 - Spreading of the family business larger advantages.
 - Promoting business institutionalization instead of their non-familiarization.
 - Fostering young people to continue working in the family business.
 - Fighting to preserve objectives, enthusiasm and transcendence of what they are doing for next generations.
 - Inculcate the commitment to execute a responsible and ethics conduction of the businesses.



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Family Businesses

To the extent that family businesses are supported, the generation of wealth and job shall be preserved, which is one of the imperative necessities in our country.



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Thank you.



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