GOVERNANCE GUIDE FOR FAMILY-OWNED BUSINESSES

2015
This guide aims at assisting family-owned businesses in designing and adopting corporate governance structures and practices. The instructions draw from the most advanced international practices while also internalizing the local context. This guide is part of a more comprehensive project that our organization, Riinvest Institute, is implementing with the support of Center for International Private Enterprise (CIPE). We are committed to play an active role in promoting modern principles of corporate governance in Kosovo.

The authors would like to thank CIPE very much for supporting this project and related activities. Special thanks go managers and business representatives for their cooperation during the implementation of our project. Finally, the authors wish to thank all parties involved in the preparation of this guidebook for their contribution while assuming the sole responsibility for its content.
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>CFO</td>
<td>Chief Financial Officer</td>
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<td>CG</td>
<td>Corporate Governance</td>
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<td>CIPE</td>
<td>Center for International Private Enterprise</td>
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<td>FOB</td>
<td>Family Owned Businesses</td>
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<td>KCFR</td>
<td>Kosovo Council for Financial Reporting</td>
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<td>IAS</td>
<td>International Accounting Standards</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
</tr>
<tr>
<td>MDA</td>
<td>Management Discussion and Analysis</td>
</tr>
</tbody>
</table>
# TABLE OF CONTENTS

Abbreviations........................................................................................................... 5

1. Introduction ........................................................................................................... 8
   1.1 Target audience............................................................................................... 9
   1.2 Methodology.................................................................................................... 9

2. Stages of Growth ................................................................................................. 10
   2.1 The Founder(s) Stage ..................................................................................... 10
   2.2 The Sibling Stage ........................................................................................... 11
   2.3 The Cousins Stage ......................................................................................... 11

3. Structures and Roles ........................................................................................... 12
   3.1 Owners/Shareholders..................................................................................... 12
   3.2 Board of Directors........................................................................................... 13
      3.2.1 Number of Directors.................................................................................. 13
      3.2.2 Composition of the Board of Directors.................................................... 14
      3.2.3 Functioning of the Board ......................................................................... 16
   3.3 Senior Managers............................................................................................. 20
   3.4 Employees and Other Stakeholders............................................................... 22
   3.5 Customers......................................................................................................... 23
# CONTENTS

4. Family Governance ........................................................................................................ 24  
   4.1 Family Charter ........................................................................................................ 24  
   4.2 Family Member Employment Policies .................................................................... 25  
   4.3 Family Member Shareholding Policies .................................................................. 25  
   4.4 Minority Shareholder Rights Protection .................................................................. 26  
   4.5 Dividend Policies .................................................................................................... 26  
   4.6 Communication and Information ......................................................................... 26  

5. Succession Planning ...................................................................................................... 27  

6. Code of Ethics or Conduct .......................................................................................... 29  

7. Control Environment and Processes ........................................................................ 33  
   7.1 The Internal Auditor ............................................................................................ 33  
   7.2 The External Auditor .......................................................................................... 33  
   7.3 Risk Management .................................................................................................. 33  

8. Disclosure and Transparency ...................................................................................... 34  
   8.1 Financial Reporting .............................................................................................. 34  
   8.2 Directors’ Report ................................................................................................... 34  
   8.3 Family Businesses Going Public .......................................................................... 36  

A Glossary of Corporate Governance Terms ................................................................. 37  

Further reading ............................................................................................................... 45  

Appendix .......................................................................................................................... 46
1. INTRODUCTION

Family-owned businesses are the backbone of many economies around the world, representing more than 70 percent of the overall businesses.\(^1\) Analogously, in Kosovo family-owned businesses constitute the most dominant form of business, comprising around 85 percent of the overall functional businesses.\(^2\) Because of their specific nature, these businesses face particular set of challenges that are intrinsic to their organizational structure. These challenges impede them from attracting and retaining high quality human capital, obtaining lower cost debt and equity capital, as well as ensuring long term sustainability. As family-owned businesses are passed to succeeding generations, the chances for their survival diminish significantly. Evidence suggests that around 95 percent of family businesses do not survive the third generation of ownership.\(^3\) One key opportunity for family businesses to improve their likelihood of survival and their overall performance is by setting the right governance structures.

This guide will pinpoint the most common corporate governance challenges, referring particularly to those faced by Kosovan family businesses, and propose good practices that can help them overcome these challenges. The most widely applied practices of corporate governance are the ones prepared by the Organization of Economic Cooperation and Development (OECD) in May 1999 (OECD, 2004) and revised in 2014. The OECD framework is clustered around six main principles: (1) ensuring the basis for an effective corporate governance framework; (2) the rights of shareholders and key ownership functions; (3) the equitable treatment of shareholders; (4) the role of stakeholders in corporate governance; (5) disclosure and transparency; (6) the responsibilities of the board. The recommendations provided in this guide rest on these principles. Moreover, Hymeri Kleemann\(^4\) – which is a successful company in Kosovo in terms of adopting corporate governance – was used as a real and practical case throughout the entire guide.

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1. European Family Businesses (2012)
2. Riinvest (2015), Corporate Governance in Family-owned Businesses in Kosovo, Pristina
4. HYMERI LLC is family business established in September 2007 in Pristina, Kosovo, with the vision to be a specialized company in the segment of elevators and escalators in Kosovo’s Market.
   As of March 2009, HYMERI LLC after a professional and trustful cooperation with the KLEEMANN Manufacturer, became an authorized and exclusive partner of KLEEMANN GROUP for the territory of Kosovo market and therefore named as HYMERI KLEEMANN LLC.
   During last seven years HYMERI KLEEMANN LLC operates with its business activity in segment of Projecting, Sales, Installation and Service & Maintenance of different models of elevators and escalators in Kosovo market.
1.1. Target audience

Family-owned businesses in Kosovo have limited knowledge on the specifics of corporate government practices – which may be one of the reasons why they fail to accommodate such practices in their organizational structures. Therefore, this guide primarily targets owners and managers of family-owned businesses in Kosovo. The principles and recommendations are also relevant for specialists involved in supporting businesses in designing and adopting sound corporate governance structures and practices. Government officials involved in strengthening country-level corporate governance in the private sector may also benefit from this document. To take full advantage of this guide, users are advised to read through another study prepared by Riinvest in 2015, namely *Corporate Governance in Family-Owned Businesses in Kosovo*. Some of the most important findings of this study are provided in this guide.

1.2. Methodology

The guide draws on primary and secondary data sources. Primary data include interviews with family-owned businesses, while secondary data include guidebooks prepared by international organizations, as well as codes of corporate governance prepared by family businesses themselves. In addition, the aforementioned Riinvest study on corporate governance has been consulted in order to assess the gaps of family businesses with respect to corporate governance practices. This guide has also benefited greatly from very fruitful insights provided by staff members and partners of CIPE.

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5 Riinvest (2015). Corporate Governance in Family-owned Businesses in Kosovo. Prishtina
2. STAGES OF GROWTH

Numerous models have been developed to describe and examine the stages that family companies go through during their lifecycle. The most common model is the one developed by the staff of the International Finance Corporation (IFC). According to this model, family businesses go through the following stages: (i) the founder(s) stage, (ii) the sibling stage, and (iii) the cousin stage.  

2.1. The Founder(s) Stage

At this stage, the company is entirely owned and governed by the founder(s). Apart from some advices that the founder(s) seek to get from outside advisors/friends, most decisions are taken by them. This stage is characterized by a strong motivation and commitment of the founder(s), as well as flexibility to deal with adversities. In addition, the company has a relatively simple governance structure.

All the above-mentioned factors contribute to the success of the company at this stage. The most important element that needs to be taken into account during the lifetime of the founder(s) is succession planning. In order to ensure continuity for the company, the founder(s) should make a proper plan for transferring the ownership and management to the next generation. The importance of succession planning will be addressed more specifically in Section 5.

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2.2. The Sibling Stage

This is the stage where ownership and management are passed on to the children of the founder(s). With the increasing number of family members in the company, governance issues become more complex than those in the initial stages of the establishment of a business. At this stage, the company, amongst other things, should aim at: formalizing business processes and procedures, maintaining siblings’ coherence, developing a succession plan for key executive management including the CEO.

2.3. The Cousins Stage

This constitutes the stage where additional governance issues come to the surface. New family members including children of the siblings, in-laws and cousins become directly or indirectly engaged in the company. Having many family members of different generations and with divergent interest/ideas hinder the development of the company. Some of the common challenges of this stage include: family member employment, family shareholding rights, dividend policy, and family vision and mission. In order to confront these challenges, it is highly recommended for the company to have a family chart that guides the relations of stakeholders in the company.
3. STRUCTURES AND ROLES

In a typical non-family business, any person involved could be an employee, a manager, an owner, a board member, or at some rare occasions a combination of these roles. On the other hand, in a typical family-owned company, the situation is more complex as an individual (a family member usually) can have multiple roles and responsibilities. The following sub-sections describe the roles and responsibilities of all levels of hierarchy, as well as provide recommendations based upon good practices.

3.1. Owners/Shareholders

Owners/Shareholders in a family company may have different goals that sometimes lead to conflicting opinions. This holds true especially at later stages of business’ existence. One typical example may be the dilemma to reinvest profits or to distribute dividends. An owner/shareholder who also holds a managerial position with a regular salary is usually against the distribution of dividends. On the other hand, an owner/shareholder who is not involved in any managerial position pushes for the distribution of dividends, as this may be the only source of income.

The issues at this level could be tackled by establishing a general assembly, which allows the owners/shareholders to participate in the governance of the company. In order for the general assembly to be a functional body, it should be held at a venue that is easily accessible for the majority of shareholders. In addition, each participant should receive a notification, agenda, and other necessary information in a timely manner. Also, each shareholder should enjoy the right to speak and give proposals, as well as to vote on matters on the agenda. The company should have a voting mechanism in place to protect minority shareholder against any unfair actions.
When the family business grows and the governance becomes more complex, it is highly recommended for the owners/shareholders not to be involved in the executive management.

### 3.2. Board of Directors

The fundamental responsibilities of a well-functioning board of directors are to develop the overall strategy of the business; oversee the management performance; and ensure that a sound corporate governance framework is in place. The activities of the board should not overlap with the activities handled by other bodies of the businesses. For instance, the board should avoid dealing with day-to-day operations as this is a responsibility that belongs to the company’s management.

In addition to the above-mentioned responsibilities, other tasks that should be performed by the board of directors include, but are not limited to:

- Securing senior management succession;
- Ensuring the availability of financial resources;
- Ensuring the adequacy of the company’s internal controls and risk management systems; and
- Reporting to the owners and other interested parties.

### 3.2.1. Number of Directors

The number of directors should be determined based upon the company’s size, nature of work, age, and future plans. There is no ‘one-size-fits-all’ formula for determining the appropriate number of directors in family-owned businesses. Best practices, however, suggest that for a board to be functional its size should be between 5 to 9 directors. The boards of the largest family-owned businesses in Kosovo have between 3 to 4 members. Family-owned businesses.
businesses in the EU countries such as, France, Germany, and Spain, on average, have larger boards – consisting of 8.8, 8.9, and 6.9 members, respectively.\textsuperscript{7} A casual vacancy on a board should be filled by the remaining directors expeditiously.

### 3.2.2. Composition of the Board of Directors

For a company to be successful in the long term, it is a wise decision to establish a strong and independent board. A study carried out in the United States with more than 80 families reveals that a non-family controlled board was one of the most important components in the survival of the company across generations.\textsuperscript{8} At times, family-controlled boards may lead to subjective decisions. In addition, the lack of sufficient independent directors prevents the company to gain additional knowledge and expertise. That said, the inclusion of independent directors is very much recommended for the firm. Truly independent directors, among other things, will: challenge the family thinking patterns; act as a balance between different members; bring an outside knowledge; and help the board to keep the meetings focused.


“Independent Director” is a person who:  

1. has not been employed by the Company or its Related Parties in the past five years;
2. is not, and is not affiliated with a company that is an advisor or consultant to the Company or its Related Parties;
3. is not affiliated with a significant customer or supplier of the Company or its Related Parties;
4. has no personal service contracts with the Company, its Related Parties, or its senior management;
5. is not affiliated with a non-profit organization that receives significant funding from the Company or its Related Parties;
6. is not employed as an executive of another company where any of the Company’s executives serve on that company’s board of directors;
7. is not a member of the immediate family of an individual who is, or has been during the past five years, employed by the Company or its Related Parties as an executive officer;
8. is not, nor in the past five years has been, affiliated with or employed by a present or former auditor of the Company or of a Related Party; or
9. is not a controlling person of the Company (or member of a group of individuals and/or entities that collectively exercise effective control over the Company) or such person’s brother, sister, parent, grandparent, child, cousin, aunt, uncle, nephew or niece or a spouse, widow, in-law, heir, legatee and successor of any of the foregoing (or any trust or similar arrangement of which any such persons or a combination

3.2.3. Functioning of the Board

Approximately 66 percent of the boards in large family-owned businesses in Kosovo hold meetings on monthly basis. These meetings, however, are informal day-to-day gatherings, rather than formal board meetings – that is because almost all board members hold executive positions at the same time. Based on successful international practices, the board should hold formal and structured meetings at least once a quarter. Directors should be provided with an agenda and all other relevant material prior to the meeting. Before making a decision, board members should thoroughly study any material information available for their consideration. This leads to decisions that are made on informed and deliberative basis. In addition, the directors should be able to exercise their power and perform their duties with a sense of objectivity, always putting the interest of the company ahead of any other interest.

In the majority of family-owned businesses in Kosovo, the position of the Chairman and that of CEO overlap. Moreover, these two position are held by the founder or by an individual coming from the controlling family. Even the second largest family-owned business in the country, as per the number of employees, has its owner exercising the duty of the CEO. The chairman is the person responsible for providing leadership to the board of directors. Ideally, the chairperson should be other than the CEO. If it is difficult to hold these two job positions separate, effective control mechanisms should be put in place. It is also recommended for the majority of the board to be comprised of non-executive members.

The chairman should preside over the meetings. He/she should be also responsible for creating an environment in which all board members feel free to express their individual and independent opinions. All the decisions of the board should go through a consultative process. In cases where the board members fail to reach consensual decisions, majority voting should be the option.

10 Rınıvest (2015). Corporate Governance in Family-owned Businesses in Kosovo. Prishtina
Good Board Practices – Hymeri Kleemann\textsuperscript{12}

The board’s composition (competencies, skills and appropriate mix) is adequate for oversight duties, and the development of the company’s direction and strategy. Each individual member of the board has the experience, knowledge, qualifications, expertise and integrity necessary to effectively discharge board duties and enhance the board’s ability to serve the long-term interests of the company and its shareholders. The board has a broad range of expertise that covers the company’s main business, sector and geographical areas and includes experienced experts who are non-executive, independent directors.

The company’s board is composed of not more than 50\% of executive directors who are employees of the company with the Chairman having the casting vote.

In order to enhance unbiased oversight, the company believes that a non-executive director should chair the board.

To ensure the impartiality of decisions and to maintain the balance of interests among various groups of shareholders, at least 25\% of the board’s members are independent directors. The company defines those directors who have no material relationship with the company as independent. The board ascertains which members are to be deemed independent during the first board meeting.

\textsuperscript{12} Taken from Hymmeri Kleemann’s statute
> **DUTIES AND RESPONSIBILITIES**

Members of the board act in good faith, with due care and in the best interest of the company and all its shareholders—and not in the interests of any particular shareholder—on the basis of all relevant information. Each director is expected to attend all board and applicable committee meetings.

The board must decide as to whether its directors can hold positions in the governing bodies of other companies. The company shall not unreasonably prohibit its directors from serving on other boards. Directors are expected to ensure that other commitments do not interfere in the discharge of their duties. Board members shall not divulge or use confidential or insider information about the company.

Members of the board shall abstain from actions that will or may lead to a conflict of interest with the company. When such a conflict exists, members of the board shall disclose information about the conflict of interest to the other board members and shall abstain from voting on such issues.

> **SIZE OF THE BOARD**

Achieving the required number, quality and mix of directors is the primary consideration of the board.

> **WORKING PROCEDURES**

The board meets according to a fixed schedule, set at the beginning of each year, which enables it to properly discharge its duties. As a rule, the board shall meet at least 4 (four) times a year.

All directors are provided with a concise but comprehensive set of information by the company secretary in a timely manner, concurrently with the notice of the board meeting, but no less than 14 (fourteen) calendar days before each meeting. This set of documents is to include: an agenda, minutes of the prior board meeting, key performance indicators,
including relevant financial information prepared by management and clear recommendations for action.

The board keeps detailed minutes of its meetings that adequately reflect board discussions, signed by the chairman.

A full and complete set of information on the directors’ qualifications is set forth and annually reviewed by the board upon the recommendation of its corporate governance and nomination committee.

> **SELF-EVALUATION**

The board conducts a yearly self-evaluation. Independent consultants may also be invited to assist the board in this process.

> **TRAINING AND ACCESS TO ADVISERS**

The Company offers an orientation program for new board members on the company, its business and on other subjects that will assist them in discharging their duties. The company also provides general access to training courses to its board members as a matter of continuous professional education. The board shall also have the ability to retain independent legal counsel, accounting or other consultants to advise the board when necessary.

> **REMUNERATION**

The remuneration of (non-executive) board members is comprised of an agreed participation based fee (part of which may be paid in the form of shares in lieu of cash) and/or an additional fee for the chairmanship of committees or the board itself. The remuneration package shall, however, not jeopardize a director’s independence. Executive directors are not paid beyond their executive remuneration package. The board or respective committee periodically reviews the remuneration paid to directors. All board members sign a letter of appointment with the company.
3.3. Senior Managers

Senior managers constitute the backbone of family-owned businesses and their quality has a direct impact on the company’s performance. Unlike board members, they are not in charge of making strategic decisions, but they are responsible for implementing strategic decisions and policies set out by the board, while being involved in daily operations of the company.

Senior managers are usually appointed by the board of directors or CEO and are accountable towards them. Most of the duties that they carry out arise from the contract with the company.

Decisions that senior managers make require systematic preparation. The senior managers should perform regular risk assessments and inform the board of directors and other stakeholders via regular formal meetings or via other communication channels.

Ensuring that the family-owned business selects the right executive managers is a process that should start since the beginning of its operations. Some of the steps of this process include:

- Designing a formal organizational structure that clearly defines the roles and responsibilities of all executive managers;
- Establishing a clear employment policy;
- Designing a remuneration system based upon performance rather than family ties;
- Developing internal training programs that prepare lower level employees for managerial positions;
- Developing a decentralized decision-making process associated to the responsibilities of managers rather than ties to the family.
Good Management Practices - Hymeri Kleemann\textsuperscript{13}

> AUTHORITY

The CEO and senior managers carry out the company's day-to-day management, implementing its goals and objectives, and carrying out its strategy.

> MANAGEMENT COMPOSITION

The management team's composition (competencies, skills and mix) is suited to the effective and efficient running of the company's day-to-day operations. Each member, including the CEO, has the experience, knowledge, qualifications and expertise necessary to effectively discharge his or her duties.

> DUTIES AND RESPONSIBILITIES

The CEO and members of the management team shall act in good faith and with due care in the best interests of the company and all its shareholders -- and not the interests of a particular shareholder--on the basis of all relevant information.

The CEO and members of the management team shall abstain from actions that will, or may lead to a conflict between their and the company’s interests. When such a conflict exists, members of the management team shall disclose information about the conflict of interest to the CEO, and shall abstain from deliberating and voting on such issues.

\textsuperscript{13} Taken from Hymeri Kleemann's statute
> WORKING PROCEDURES
The management team meets regularly as specified by the CEO and agenda issues are communicated in advance. The working procedures of the management team are decided by the CEO.

> REMUNERATION AND EVALUATION
The amount of remuneration of the CEO is set by the board. The remuneration of the management team is set by the CEO.

The remuneration of the CEO shall have a fixed and variable component, and the latter is tied to key performance indicators as set by the board, in-line with the input into the company’s long-term development and creation of shareholder value. The company will not provide personal loans or credit to its executive officer or managers.

3.4. Employees and Other Stakeholders

It should be imperative for the company to set out proper human resource policies that will attract and retain qualified and skilled employees. Some of these policies include designing a marked-based remuneration and developing a performance evaluation system. The board and chief executive should make sure that there is no discrimination between family and non-family members. It is necessary for the company to have a clear recruitment policy that ensures objectivity.

The board of directors should ensure all the operating policies and procedures are well documented and all employees have easy access to them. Every employee, including family members, should be equal in front of these policies and procedures. The board and senior management should ensure transparent and regular communications with and among employees at all levels.
3.5. Customers

In order to establish long-term profitable and loyal relations with customers, the company should perform regular customer satisfaction assessments and take actions based upon the results. It is of paramount importance for the company to know the customers closely and to take good care of them. The success of the company rests on their satisfaction. Regular surveys or focus groups enable the family company to have a clearer picture on the level of acceptance of the current range of products and services, and serve as good tools for obtaining relevant information that facilitate decision making process within the company.
4. FAMILY GOVERNANCE

At initial stages, when the company is still small, a very few family governance issues may be apparent as all the power rests in the hands of the founder. As the company grows and new members join the company, the coordination and relationship amongst different actors becomes more complex. Therefore, it is mandatory to set up a clear and sound family governance structure that would create discipline amongst family members, prevent potential conflicts and ensure sustainability for the company. One of the major constituencies of the family governance structure is the family charter.

4.1. Family Charter

The family charter is a document that outlines the vision and mission of the company. In addition, it clearly defines the roles, responsibilities, relationships, composition, and powers of key bodies and structures. The charter is a living document that is subject to changes as the company evolves.

Albeit the content of the family charter varies based upon the size and level of development of the company, a typical charter should be structured around the following pillars:  

- Family values, mission statement, and vision;
- Family institutions, including the family assembly
- Board of directors (and board of advisors if one exists);
- Senior management;
- Authority, responsibility, and relationship among the family, the board, and the senior management;
- Policies regarding important family issues such as family members’ employment, transfer of shares, CEO succession, etc;

4.2. Family Member Employment Policies

In the absence of family member employment policies, many companies ended up employing more family members than they actually needed. In some worse cases, companies retained unprofitable business lines merely to accommodate everybody in the family. Therefore, a set of policies clearly stating the conditions of entry, staying, and exit of family members is highly recommended for a family-owned business. When a company drafts family member employment policies, amongst other things, it should take into account the following elements:

- Policies should state that new job vacancies for a family member shall not be opened unless there is a real need deriving from the growth of the company;
- Policies should contain all the prerequisite qualifications needed to fill a vacant position, particularly emphasizing educational requirements and working experience;
- Policies should explicitly provide the grounds for dismissing a family member;
- Policies should list all the criteria that determine the compensation and benefits of a family member.

4.3. Family Member Shareholding Policies

As the company along with its shareholders grows larger, most shareholders end up having a smaller percentage of shares and lower dividends as a result. This situation could create dissatisfaction among minor shareholders and may lead to conflicts with family members that receive salaries. A shareholding policy at early stages of development would regulate this issue by defining mechanisms that allows family members to sell their shares if they need cash instead. Providing the shareholders with a liquidity option could be a means to mitigate the potential conflicts.
4.4. Minority Shareholder Rights Protection

The company should put in place system of registering shareholder complaints and develop mechanisms that settle corporate disputes.

The company should practice cumulative voting. This allows minority shareholders to have a representative on the board who pays particular attention to minority shareholder rights. In addition, it should make a policy that protects the rights of minority shareholders in special circumstances, such as a change of control.

4.5. Dividend Policies

In order to avoid conflicts amongst shareholders, the company should develop and follow a written dividend policy. The dividend policy should be disclosed in the website of the company. The dividend policy is important for the company as it:

- Establishes an understandable, predictable, and transparent mechanism for setting the payment procedure and the amount of dividends;
- Ensures that the dividend payment procedure is not complicate; and
- Ensures complete and timely payment of dividends.

4.6. Communication and Information

The family should formulate a communication policy to stimulate an unbiased exchange of information. Family letters and/or regular family gatherings could be some form of communication. Family members should take into account different opinions, ideas, and criticism in the decision-making process. In cases where they fail to reach an agreement themselves, an external mediator could be invited to chair the meeting. This eventually settles the disputes amongst family members, enabling the company to maintain a positive coherent image in public.

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Most of the large family businesses in Kosovo have been established in the 90s and their respective management is now close to retirement age. It is very likely that these businesses are about to enter a succession phase. The results of the Riinvest survey reveal that owners of large family businesses in Kosovo have limited knowledge of the complexity of the succession process. Globally, many family-owned businesses underestimate the importance of succession planning of their executive management (including the CEO). That said, in many cases the succession planning is deferred until the last minute. This in turn leads to crises that may culminate in the closure of the company. Lack of succession planning indeed is one of the main reasons why many family businesses cease to exist before they reach the second or third generation. A formal succession plan prepared in early phases of the company ensures sustainability and thus increases the chances for survival across different generations. A step-by-step process that helps the family business to be better prepared for its CEO succession is provided below:
Steps of a CEO Succession Plan

STARTING EARLY: It is highly recommended for a family business to start the selection process of the next CEO as early as the new CEO takes the lead. It is especially important for those companies that appoint the CEO from within the company. The initiative for having a succession plan should come from the current CEO; the board may also be involved in this process.

CREATING CAREER DEVELOPMENT SYSTEMS: If the next CEO foreseen to be selected from within the company, he/she should undergo a career development system that prepares him/her to take the lead. In cases where there are no good enough candidates from within, the board should create a committee responsible for leading the succession planning of the CEO. This committee selects the new CEO based upon criteria that they should set out in advance. Another option could be to hire a professional head-hunter, if available in the country.

SEEKING ADVICE: When narrowing down the list, the company should ask independent directors or non-family senior managers for advice.

BUILDING CONSENSUS: Throughout the recruitment process all bodies of the company should be involved including: the board, senior non-family members, and family members.

CLARIFYING THE TRANSITION SYSTEM: When the best succeeding CEO has been chosen, a smooth transition process both for the current and the new CEO should be developed. The transition process, amongst other things, should define the timeframe of transition and the involvement of the current CEO when he/she hands over his position.
6. CODE OF ETHICS OR CONDUCT

Over 90 percent of the large family-owned businesses have a code of conduct. This high percentage, however, should be interpreted with caution since in Kosovo’s culture a code of conduct is not always understood as a written document. It sometimes has the connotation of a few unwritten codes ingrained in the firm guiding the behavior of employees. It is recommended for each family-owned business to prepare a written code of ethics/conduct with a set of rules and regulations outlining social norms, ethical values and proper practices for its personnel. The board and executive management should set the “tone at the top”. The implementation of such rules should be demonstrated by the board and management for all employees to emulate. Given that the environment of the company changes throughout the time, the code of ethics/conduct should be reviewed by the board and signed by everyone at the company. Some of the most common areas covered by the code of ethics/conduct include, but are not limited to: employee privacy, sexual and other forms of harassment, confidentiality and information, conflict of interest, public appearance, and receipt of gifts.

17 Riinvest (2015). Corporate Governance in Family-owned Businesses in Kosovo. Prishtina
Main highlights from Code of Ethics – Hymeri Kleemann

> EMPLOYEE PRIVACY

Hymeri Kleemann respects the privacy and dignity of all individuals. The Company collects and maintains personal information that relates to your employment and your career and special care is taken to limit access to personal information to Company personnel with a need to know such information for a legitimate purpose.

Employees should not search for or retrieve items from another employee’s workspace without prior approval of that employee or management. Similarly, you should not use communication or information systems to obtain access to information directed to or created by others without the prior approval of management.

Personal items, messages, or information that you consider to be private should not be placed or kept in telephone systems, computer or electronic mail systems, office systems, offices, work spaces, desks, credenzas, or file cabinets.

> SEXUAL AND OTHER FORMS OF HARASSMENT

Hymeri Kleemann policy strictly prohibits any form of harassment in the workplace, including sexual harassment. The Company will take prompt and appropriate action to prevent and, where necessary, discipline behavior that violates this policy.

18 Taken from Hymeri Kleemann’s Code of Business
> CONFIDENTIALITY OF INFORMATION

All Confidential Information is the sole property of Hymeri Kleemann. The Company and all employees have ethical and legal responsibilities to maintain and protect the confidentiality of all Confidential Information.

Failure to adequately protect this information may have an adverse economic impact on the Company, and any misuse or disclosure of Confidential Information may result in violation of applicable Laws. Violations could expose the Company and/or the person involved to severe criminal or civil liability.

> CONFLICT OF INTEREST

Employees shall avoid employment or business activities that interfere with their duties to the Company divide their loyalty, or create or appear to create a conflict of interest, unless such employment or activities are fully disclosed to the General Manager of Hymeri Kleemann and approved in writing.

> PUBLIC APPEARANCE

Hymeri Kleemann supplies all staff on the site with appropriate clothes branded with the Hymeri Kleemann logo. These clothes are to be kept on by the employees all the time during the working hours.

Hymeri Kleemann requires by its employees on the office to apply a business or casual business attire during the working hours. Extra attention should be applied when formal meetings with clients are scheduled.

Hymeri Kleemann requires by the staff in any level of the Company to apply the norms of the professional appearance, in every moment, regardless the justification in specific situations.

Hymeri Kleemann requires that each employee apply a professional behavior and communication among each other, third parties and in public. This includes but it is not limited in professional communication
face to face, on the phone, email. Professional behavior on public and non-public, not engaging on unethical and unprofessional conflicts with clients or other individuals, respecting of the traffic regulation, speed limits, traffic lights when are driving a Company car.

> RECEIPT OF GIFTS

Employees must not accept entertainment, gifts or favors that could influence, or would appear to influence, business decisions in favor of any person or organization with which the Hymeri Kleemann has or is likely to have business dealings.
7. CONTROL ENVIRONMENT AND PROCESSES

7.1. The Internal Auditor

The Company should establish an internal auditor. The main responsibility of the internal auditor is to conduct daily internal control of the company’s finances and operations. It is very important for the internal auditor to be a person with a high reputation.

7.2. The External Auditor

Family-owned businesses should demand for annual external auditing. The auditing should be conducted by a firm of independent, qualified, and competent auditors who work in accordance with Kosovo Accounting Standards. The company could be selected by an audit committee that can be created within the company. The external auditing company should be licensed by the Kosovo Council for Financial Reporting (KCFR). The audit committee and the auditing firm could interact while the auditing process takes place.

7.3. Risk Management

The company should incorporate risk management at its governance structures. The board should ensure that an appropriate risk management system is in place. Among other things, the board is entitled to:

- approve risk management procedures and ensure compliance with such procedures;
- analyze, evaluate, and improve the effectiveness of the internal risk management procedures on a regular basis;
- develop adequate incentives for the CEO, managers, departments and employees to apply internal control systems; and
- establish a risk management committee of the board when necessary.
8. DISCLOSURE AND TRANSPARENCY

8.1 Financial Reporting

While large family-businesses in Kosovo submit their financial statements to the tax authority, still none of them make their financial statements available to public on their websites. Moreover, only about one in seven companies make their financial statements available to their staff.\(^{19}\)

The annual financial statements of the company should be prepared in accordance with International Accounting Standards and national standards applicable in Kosovo. The company should have a Chief Financial Officer (CFO) who should be entitled to produce annual financial reports. Depending on the size of the business and its needs, apart from annual financial reports, the company may produce interim financial reports. Financial statements should be shared with relevant stakeholders after the board of directors endorses them.

8.2 Directors’ Report

Every year, the board of directors should prepare a report that contains the annual financial statements and a review of operating and financial performance. This annual report should also emphasize all the initiatives undertaken by the board and management in guarantying policy efficacy and implementation.

Amongst other things, the annual report may include comments with regards to company’s strategy and identify risks that may hinder the implementation of activities foreseen by the company. Finally, it is important for the report to highlight how the company stands in terms corporate governance. This guidebook book could be considered as a benchmark against which they can compare their performance in the aspect of corporate governance.

\(^{19}\) Rilinest (2015). Corporate Governance in Family-owned Businesses in Kosovo. Prishtina
Disclosure and Transparency - Hymeri Kleemann

> DISCLOSURE POLICIES AND PRACTICES

The company discloses and provides easy access to all material information, including the financial situation, performance, ownership and the governance structure of the company to shareholders free of charge. The board prepares and approves a policy on information disclosure and makes it publicly available on the company’s internet site. The company publishes a comprehensive annual report that includes a corporate governance section. The company discloses its corporate governance practices, corporate events calendar and other material information on its internet site in a timely manner.

The company takes measures to protect confidential information as defined in its policy on information disclosure. Any information obtained by the company’s employees and the members of the governing bodies may not be used for their personal benefit.

> FINANCIAL REPORTING

The company keeps records and prepares a full set of financial statements in accordance with International Financial Reporting Standards. Detailed notes accompany financial statements so that the users of the statements can properly interpret the company’s financial performance. A management discussion and analysis (MDA), as well as the opinions of the external auditor, shall complement all financial information.
8.3 Family Businesses Going Public

Given the absence of an established stock market in Kosovo, going public for family businesses in Kosovo is not an immediate option. Going public is a multifaceted process that requires a cautious consideration as well as lots of dedication and preparation by the board of directors and management. It is more recommended in later stages of the company. The table below presents the advantages and disadvantages of going public.20

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>- It makes it easier for the company to obtain loans and to negotiate the</td>
<td>- The information revealed by the company may be used by competitors to beat the company that goes public.</td>
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<tr>
<td>terms of these loans.</td>
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<tr>
<td>- It improves the image, credibility, and visibility of the company in the</td>
<td>- The arrival of new shareholders reduces the space of original family members to operate unfettered.</td>
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<tr>
<td>market. Clients perceive companies that go public as professionally</td>
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<tr>
<td>managed; this may be translated in a greater volume of sales.</td>
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<tr>
<td>- Transparency reduces asymmetry between the company and new potential</td>
<td>- Going public involves an additional cost for the company (i.e. extra paper work).</td>
</tr>
<tr>
<td>shareholders.</td>
<td></td>
</tr>
</tbody>
</table>

ACCOUNTABILITY - Accountability is the unavoidable duty to explain the ways in which an individual or group has carried out, or caused to be carried out, the obligations placed upon him or them by law, a governing body or constitutional document. While the discharge of these activities/obligations may be delegated to others, the obligation to account for (i.e. remain accountable for) the actions cannot be delegated.

AFFILIATE - A corporation that is related to another corporation by one owning shares of the other, by common ownership, or by other means of control. In general: two companies are affiliated when one owns less than a majority of the voting stock of the other, or when both are subsidiaries of a third company. A subsidiary is a company of which more than 50% of the voting shares are owned by another corporation, termed the parent company. A subsidiary is always, by definition, an affiliate, but subsidiary is the preferred term when majority control exists. In everyday use, affiliate is the correct word for intercompany relationships, however indirect, where the parent-subsidiary relationship does not apply.

AGENCY COST - are the costs that arise when an agent is acting on behalf of others. These cost can include the direct and indirect cost of the Board of Directors and management – all cost that are incurred because the principal has delegated to oversight of his/her investments to others. Theoretically the managers acting on behalf of the shareholders may in fact have a different agenda from those shareholders, giving to potential conflicts of interest and self-dealing, which are also agency cost.

ANNUAL MEETING – according to the Law of Business Organization in Kosovo LAW No. 02/L-123 every company shall hold a meeting of shareholders annually, to be known as its annual meeting. An annual meeting of the shareholders shall be held within 60 days after the board receives the company’s audited financial statements for each financial year, but not later than 90 days after the end of the company’s financial year. The board shall ensure that the shareholders are
provided with the audited financial statements of the company at least 30 days to prior to the annual meeting. A company’s annual meeting shall be held at the place stated in the company’s charter or by-laws or (if not there stated) at a place fixed by the board of directors, which shall be within Kosovo.

AUDIT COMMITTEE – Committee comprised of independent directors and company employees as well as persons outside the company. The key duties of the audit committee are to select, oversee and compensate the company’s independent auditors; review and approve financial statements, securities filings and press releases, review internal control system and received reports from the company’s internal and external auditors. Frequently charged with oversight of related party transaction, risk management, and general compliance activities.

BOARD – A group of elected or appointed individuals who are collectively responsible for the governance and strategic direction of an organization. The board will often consist of the chair, executive directors and non-executive directors.

BOARD OF DIRECTORS – is the group of individuals elected by the shareholders to represent them in overseeing management of the company. The business of the company shall be managed by or under the direction of its board of directors as provided in Chapter 6 of Business Organization Law.

The competence of a board of directors shall include the making of decisions on all matters except decisions which are reserved to the shareholders by Law or by the company’s charter. Subject to such reservations, the following matters are included within the exclusive competence of the board of directors: approving overall business strategy plans for the company; convening annual and extraordinary shareholder meetings; preparing the initial agenda of a shareholder meeting; determining the record date for the list of shareholders entitled to participate in a shareholder meeting; issuance of shares within the limits stated in the company’s charter or by shareholder decision for each type and class of shares, when that power is conferred on the board of directors in the company’s charter or by shareholder decision; issuance of bonds, options to acquire shares and other securities; hiring of the officers/senior managers of the company, approval of the terms of agreements between such senior managers and the company, establishing their; determination of the remuneration of and other terms of agreements with the company’s auditor; determining the amounts of and the record dates, payment dates and procedures for dividend payments; approval of the company’s annual report, annual balance sheet and annual profit and loss account which shall then be submitted

38
to the shareholders for approval; and deciding any other matters which are referred to the exclusive competence of the board of directors in the company’s charter.

The board of directors shall also have exclusive competence to, and must:

a) ensure that an audit of the books and records of the company is performed at least annually by an independent auditor, the choice of which shall be approved by the shareholders in accordance with the Law, including Procurement Law with the auditor’s report addressed to the shareholders and made available to each director and officer, and

b) ensure that an annual report containing an independently audited statement of the company’s financial position, a report from the officers regarding the status of its operations, and any other disclosures that may be required by the charter, the by-Laws or the present Law or other applicable Law is prepared, signed by the Chairman of the Board and at least one other director and distributed to all directors, officers and shareholders.

BOARD PERFORMANCE/EVALUATION – The periodic review to assess the performance of the board (and individual directors) either by itself (self-assessment) or by a third party, and indicate where improvements can be made. The chairman and a senior independent director should report to the board on the results and the board should then report the result to the members in the annual report.

CASTING VOTE – An extra vote given by a chairperson to decide an issue when the votes on each side are equal. This is regulated by law or statute of the company.

CODE OF ETHICS – A code of ethics (also called a code of conduct) is a guide of behavior and values that imposes duties and responsibilities on a firm’s directors, managers and employees towards its stakeholders, including colleagues, customers, business partners, government and society. This code usually serves to: (i) emphasize the firms’ commitment to ethics and compliance with the law; (ii) set forth basic standards or principles of ethical and legal behavior; (iii) provide reporting mechanisms for known or suspected ethical or legal violations; (iv) indicate penalties for code violations (in spirit or in letter) and (iv) help prevent and detect wrongdoing.

COMMITTEE – A group of individuals who receive and consider reports from a third party and present the findings to a superior body. All committees should have appropriate and up-to-date terms of reference that are approved and reviewed by the board.
REMUNERATION OF DIRECTORS – A company may pay compensation to directors and reimburse directors for their reasonable expenses in serving the company as its directors. A decision to provide such compensation or reimbursement and approval of the amount and main conditions thereof may only be made by the shareholders or by an external committee to which shareholders delegate such power. If it has delegated such decision, then the decision shall be disclosed to the shareholders at the next-following shareholder meeting.

CONFLICT OF INTEREST – The term “conflict of interest” refers to any situation in which an individual or corporation (either private or government) is in a position to exploit a professional or official capacity in some way for their (or that of a related party) personal or corporate benefit. In short, it is a conflict between a person’s private interests and public or professional obligations.

CORPORATE GOVERNANCE – Corporate governance is the system of policies and procedures put in place a company to provide checks and balances on the agency cost which arise as a result of the separation of direct oversight of the enterprise from those who invest money in the enterprise.

CORPORATE GOVERNANCE GUIDELINES – Corporate governance guidelines are the system of internal policies and procedures adopted by the board of directors in order to provide a framework for it to meet its duties and responsibilities to shareholders. The corporate governance guidelines include: director qualification standards; separation of the chair and CEO position; board membership criteria; resignation for failure to receive majority vote for election as a director; resignation upon change in primary job responsibilities/position; appointment process for new directors; insider trading policies; conflict of interest; policies of communication of board; limitation on outside directorships; director responsibility; management succession planning process; equity ownership guidelines for directors; limitation on handing or derivate transaction in company security for directors and officers.

CORPORATE SOCIAL RESPONSIBILITY - Responsibility shown by an organization for matters of general concern to the society in which it operates, such as protection of the environment, health and safety of workers and social welfare.

CORPORATE SUSTAINABILITY – Aligns an organization’s products and services with stakeholder expectations, thereby adding economic, environmental and social value.
DIRECTORS – Individuals who have been elected to serve on the company’s board of directors. Directors are not employees of the company and serve at the pleasure of the shareholders for a defined term. A director need not be a resident of Kosovo, need not be a shareholder of the company unless the company’s charter so prescribes. Generally, directors can only be removed from their chair position by a majority vote of the shareholders. Due diligence—A systematic investigation into a company’s financial position, past performance, assets, legal liabilities, etc before a deal is done to ensure that no unexpected problems emerge afterwards. You may also undertake a due diligence exercise before undertaking a major activity such as setting up a new business. Due diligence is generally carried out by companies or their advisers before acquiring or merging with another company.

ENTRENCHED MANAGEMENT – Management is considered to be entrenched, i.e., not easily removed or changed even if shareholders press for it, when the board is considered too closely affiliated with the CEO (a common word used is “beholden”) or if the company has in place a poison pill, multiple classes of voting shares, or other devices which make it difficult to change the makeup of the board.

EXECUTIVE COMMITTEE – A committee of senior executives, who are appointed usually by the governing board, with the authority to manage day-to-day affairs of the organization.

EXECUTIVE CHAIR – Where a board elects a Chair who is not also the CEO but is not considered independent, the chair is deemed to be an Executive Chair. For example, where a retiring CEO is appointed Chair or where the Chair has significant operating responsibilities and is paid accordingly, the Chair may be referred to as an Executive chair.

FIDUCIARY DUTIES – Fiduciary duties arise out of the relationship of trust and confidence recognized between principal and agent. Fiduciary duties of directors include the duty of care, the duty of loyalty, the duty of disclosure, the duty of monitoring, and other duties such as the Revlon duties. Fiduciary duties are generally.

FINANCIAL EXPERT – A financial expert is defined as a person who understands financial statements, generally accepted accounting principles, internal controls, financial reporting procedures, and who has experience in preparing, auditing, analyzing, and evaluating financial statements or overseeing such activities.
GOODWILL – Goodwill is an intangible asset of a company. The buyer of a business is often willing to pay for the “good name” of the business in addition to the value of its assets. Goodwill appears on the balance sheet as the excess of the amount paid for the shares over their net asset value.

GOVERNANCE AND NOMINATING COMMITTEE – is comprised of independent directors as defined in the relevant listing standards for the exchange upon which the company’s stock is traded. Nominating and governance committees are generally charged with nominating candidates for election to the board of directors; performing evaluations of board, committee, and director performance; establishing a skills matrix relevant to the needs of the board, oversight of the proxy process, and the establishment of corporate governance guidelines.

INDEPENDENT DIRECTORS – “Independent director” means a person other than an executive officer or employee of the company or any other individual having a relationship which, in the opinion of the issuer’s board of directors would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

INTERNAL AUDIT – Investigations and checks carried out by the internal auditors of an organization. Internal audit is a function rather than an activity. However, the work program of an effective internal audit team may reduce the amount of work the external auditor needs to carry out in performing the annual audit, provided the external and internal auditors collaborate effectively.

INTERNAL CONTROLS – Control measures within an organization that are intended to ensure the safeguarding of the organization’s assets and to prevent or detect fraud or error.

INSIDE DIRECTORS – Directors who are also employees of the company are referred to as inside directors. Inside Director to include a (direct or indirect) beneficial owner of more than 50% of the company’s voting power.

INSPECTOR OF ELECTION – Because shareholder voting at annual meetings is generally done through proxies, and in most cases officers of the company are the holders of those proxies, an inspector of election is appointed in order to receive and review the actual votes cast and report the results of the election. It is generally considered a best practice if the inspector of election is an independent agent unaffiliated with management, the board, or any group of shareholders.
**MAJORITY VOTING** – In an election for directors, the majority voting standard requires that each director receive more than 50% of the votes actually cast in order to be considered elected. In instances where a majority voting standard is adopted as a policy rather than as a by law, directors who do not receive a majority of the votes cast may be required to submit their resignation to the Board, which may or may not accept such resignation depending upon the facts and circumstances of the situation. If majority voting is a By-law provision, directors who do not receive a majority vote are considered removed from the board immediately. Majority voting is contrasted to the plurality voting standard which provides that the highest vote getters for the number of open positions are elected, regardless if any candidate receives less than a majority of the votes cast.

**MANAGEMENT DIRECTORS** – Directors who are also employees of the company and cannot be considered independent or outside directors.

**MINUTES** – Every board and committee meeting is required to maintain a written record of what transpires during the course of the meeting. These minutes are maintained by the corporate secretary and while not published, they can, within certain limitations, be viewed upon reasonable request by shareholders. There is a constant tension as to how much information should be included in the minutes as they become a source of information on the board’s activities when accessed by plaintiff’s lawyers in litigation.

**NOMINATIONS COMMITTEE** - The Combined Code states that: ‘There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.’

**OBSERVERS** - Credit agreements frequently include a provision permitting a representative of the lender or investor to attend and observe Board of Directors’ meetings and to receive all of the same information which directors receive. Observers do not, however, have voting rights with regard to any matters brought up before the board.

**OUTSIDE DIRECTORS** - Directors who are not employees of or excessively compensated by the company but who do not meet the definition of independence under the relative standard for which independence is being measured. Recently retired but no longer active former employees could qualify as outside directors.
**PROXY** – A shareholder may appoint a proxy to vote his shares by providing such proxy with a written designation of proxy” signed by the shareholder or – if the shareholder is a business organization – an authorized person of such business organization. Such written “designation of proxy” must clearly state that the proxy shall have the power to vote the shareholder’s share. (Article 199.3)

**SHAREHOLDER** – an individual or entity which owns a share of the company’s stock, generally referring to common stock. A joint stock company may have one or more persons, business organizations and/or other organizations as its shareholder or shareholders.

**SUCCESSION PLANNING** – Generally considered with regard to planning for the replacement of the Chief Executive Officer, succession planning is the process by which a company identifies, develops, and hires key individuals such as senior executives (CEO, CFO) and directors. Succession plans may include the development of internal candidates as part of a long term succession plan (such as a retirement), an emergency candidate if the CEO must be replaced upon short notice (such as death, disability or poor performance), the identification of interim CEO candidates, or the use of external search firms.

**SUSTAINABLE DEVELOPMENT** – Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

**TWO-TIER BOARD** – A board structure with two boards, a supervisory board comprised of non-management directors and a management board comprised of management directors. The CEO heads the management board and reports to the Chairman of the supervisory board. Governance responsibilities are divided between the two boards. Germany notably uses this board structure. See also ‘unitary board’.

**UNITARY BOARD** – Board structure where the organization has just a single board of directors, consisting of management directors and non-management directors. A unitary board structure is used in Canada and the UK.
FURTHER READING


Riinvest Institute (2015). Corporate Governance in Family-Owned Businesses in Kosovo. Pirshtina, Kosovo


## APPENDIX

### Appendix 1.1. Checklist for Good Governance in Family Businesses

<table>
<thead>
<tr>
<th>Item</th>
<th>Existing</th>
<th>To Do</th>
<th>To be finished until</th>
<th>Responsible</th>
<th>Completed</th>
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</thead>
<tbody>
<tr>
<td>Family Charter</td>
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<tr>
<td>Board of Directors</td>
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<tr>
<td>Independent board members</td>
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<tr>
<td>Board Remuneration System</td>
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<tr>
<td>General Assembly</td>
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<tr>
<td>Management Remuneration System</td>
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<tr>
<td>Family Member Employment Policy</td>
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<td>Succession Planning</td>
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<td>Dividend Policy</td>
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<td>Risk Management System</td>
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<td>Code of Ethics/ Conduct</td>
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<td>Communication Policy</td>
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<td>Disclosure policy</td>
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<td>Internal Audit</td>
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<tr>
<td>External Audit</td>
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<tr>
<td>Director’s reporting</td>
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<td>Complaint system for shareholders</td>
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</table>
Appendix 1.2 Board of Directors – Self Evaluation Form

Name:

Years on the board:

Instructions: Please answer the following questions by checking the appropriate box.

1. Do you regularly attend board meetings?
   a. Yes
   b. No

2. Have you read the statute of the company (if it already has one)?
   a. Yes
   b. No

3. Do you receive the Minutes of the prior month’s Board meeting at least a week in advance of the current month’s meeting?
   a. Yes
   b. No

4. Are the minutes kept in accessible location, if needed for review?
   a. Yes
   b. No
   Comment:

5. Does the Board annually evaluate the CEO?
   a. Yes
   b. No
6. How do you rate the Board’s performance?
   a. Excellent
   b. Good
   c. Satisfactory
   d. Unsatisfactory

7. Has the Board initiated a long-term strategic plan?
   a. Yes
   b. No

8. Is the Board instrumental in reviewing and adopting personnel policies and procedures?
   a. Yes
   b. No

9. Do you have any suggestions for improving the Board’s performance?

   Comments:

   Other Comments:
Appendix 1.3. Board of Directors: Terms of Reference

Objectives

- To provide the owners with a sounding board for major operational and strategic business decisions.
- To assess and ensure that systems are in place to manage the risks of the Company’s business with the objective of preserving the Company’s assets.
- To enhance professional and personal growth.
- To oversee the conduct of the business and management, which is responsible for the day-to-day conduct of the business.
- To be accountable towards employees, government authorities, other stakeholders and the public.

Role and Responsibilities

- The Board must ensure that there are long-term goals and a strategic planning process in place.
- The CEO formulates the Company’s strategy, policies and proposed actions and presents them to the Board for approval.
- The Board ultimately approves, on an annual basis, the strategic plan which takes into account, among other things, the opportunities and risks of the Company’s business.
- The Board must identify and have an understanding of the principal risks associated with the Company’s businesses, and must ensure that appropriate systems are in place which effectively monitor and manage those risks.

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• The Board must ensure that processes are in place to enable it to monitor and measure management’s, and in particular the CEO’s, performance in achieving the Company’s stated objectives.
• The Board must approve the CEO’s compensation.

• The Board shall satisfy itself as to the business and professional integrity of the CEO and other executive officers and that the CEO and other executive officers create a culture of integrity throughout the Company.

• The Board must ensure that the necessary internal controls and management systems are in place that effectively monitor the Company’s operations and ensure compliance with applicable laws, regulations and policies.

• The Board must monitor compliance with the Company’s Policy on Business Conduct and Ethics

• The Board must ensure that processes are in place to properly oversee Company sponsored pension plans.

• The Board must ensure the Company has a communications program in place which effectively communicates with and receives feedback from shareholders.

• The Board must also ensure that the Company has appropriate processes in place to effectively communicate with employees, government authorities, other stakeholders and the public.