



غرفة تجارة وصناعة محافظة بيت لحم
Bethlehem Chamber of Commerce & Industry

Good Governance for Family Businesses

Prepared by: Elva Bandi
Supervised by: Governance
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Introduction:

Family-owned businesses comprise a reasonable percentage of all business enterprises in Palestine, as recent studies shows that it forms almost 85-95% of total enterprises. These businesses play a major role in the economy of Palestine specially in the Gross Domestic Product. Despite that most of the businesses in Palestine are recorded in different legal registrations in the ministry of economy, the majority of these businesses are considered to be family ones, owned and managed by family members in different managerial positions and control the board of directors, which usually do not perform their actual role and responsibilities that are known and familiarized in other limited joint- stock company or large general companies. Accordingly, the need for a defined clear system that organize these family businesses is required.

The concept of Governance is not new but widely spread lately with various explanation, simply it can be defined as the process of decision-



making and the method by which these decisions are executed and sustainability is reached through a smooth transition of the business for second and third generation.

Corporate Governance Main Characteristics:

1-Discipline is a commitment by a company's senior management to adhere to behavior that is generally recognized and accepted to be correct and proper.

2- Transparency means that enough information is freely and easily available and directly accessible to those who will be affected by the decisions made and its enforcement.

3-Independence is the extent to which mechanisms have been put in place to minimize or avoid potential conflicts of interest that may exist.

4- Accountability is the effectiveness and the existence of mechanisms for making all individuals or groups in a company, who make decisions and take actions on specific issues, to be accountable for their decisions and actions.



5-Responsibility is the behavior that allows for corrective action and for penalizing mismanagement.

6-Fairness is the balanced systems that exist within the company taking into account all those that have an interest in the company and its future.

Referring to the importance and the major role that governance has over the companies which meets with the goals and the mission of Bethlehem Chamber of Commerce and Industry and the role it plays to support its General Assembly members, the Governance Committee in BCCI sought to develop this guiding booklet to support its members

and provide a high-quality managerial instruction for its registered members within Bethlehem Governorate.



Scope of implementation

The implementation of corporate governance is considered to be one of the most important factors for the survival and the sustainability of the businesses, as a result the BCCI Governance committee tended to put a basic leading instruction for the use of micro, small & medium enterprises, that consist of maximum 10 employees which are mostly family members or partners which the business system implemented in it is family oriented.

The purpose of the brochure:

- 1- Enhancing the sustainability and performance of family-owned companies.
- 2-Assisting family-owned businesses and strengthening its internal systems.

3- Ensuring that the family system and the economic system do not overlap.

4-Supporting the businesses in order to maximize profits and secure future prosperity.



Basic Guidelines for Family Businesses

1-Internal Control system:

Internal control management is essential to the effectiveness of business' processes which requires the design and implementation of an internal control system. The lack of effective internal control systems is particularly problematic for small and medium enterprises (SMEs) as they tend to be more vulnerable and less equipped to deal with the effects. Moreover, an effective internal control system not only facilitates the firm's performance evaluation but may also limit the degree of risk. Thus, for family businesses internal control systems are important tools that make the difference between success and failure, succession or expiration.

The most important components of this internal control system are:

◆ **Financial System**

Family businesses are required to set written and specific financial principles for employees and partners, these principles impose record keeping for financial actions, the establishment of defined frameworks, policies, procedures and the protection of the company's assets.

◆ **Human Resource System**

There must be a system that includes an Organizational structure divided and distributed among all partners and employees that reflects job descriptions and tasks that are clear and divided among everyone and defined by roles and concerned with a salary scale that reflects education degrees, competencies and years of experience.

◆ **Working Procedures Manual:**

Work procedures must be clearly defined, including working hours and days, daily and weekly rest periods, work leaving hour, and related clauses, as well as actions that violate work policies and the consequences that follow, the end of service allowances actions taken by the employer, and any other practices



pertaining to the organization's work procedures. A legally binding written contract that ensures the protection of each party's rights governs the relationship between the two parties.



2-Capital and ownership Registration:

The capital and ownership of the shares between partners and their family members must be registered legally which protect everyone's right

3-Transfer of shares:

It is preferable to have an arrangement between partners in the case that one of the partners wants to sell his shares, there should be a contract that allows the sale to be made in installments over a maximum of five years if the buyer is unable to secure the full amount in cash, ensuring that the shares remain in the family's possession.

4-Signature Approval:

the authority to sign must be provided for a maximum of one or two individuals as it specifies the essential requirements that need to be fulfilled before the two individuals can sign separately or jointly.



⇒ Criteria that need to be signed by one authorized person:

- Signing official documents at governmental organizations and others.
- Signing checks at a certain agreed on amount of money.
- Representing the company in internal and external exhibitions and conferences.
- Signing purchase orders, procurements, imports and exports operations.

⇒ Criteria that need to be signed by two authorized persons jointly:

- Loans or facilitations from local or international banks or lending institutions
- Business expansions, opening new branches and renting more premises.
- New investments in properties, lands or creating new projects.



5-Dividends:

A profit-sharing strategy must be established, with the following preferred division and distribution of profits among the partners:

-Reserve profits:

must be used to upgrade the business, such as purchasing new tools and equipment or replacing any that are currently in use.

-Cash distributions:

to distribute cash for all partners.

-Expansion profits:

must be used for new business opportunities and projects.



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Governance Committee Members

Mr. Issa Mousa-Committee Supervisor
Mr. Khaled Al Darawi-Committee Member
Mr. Rajwan Ibdeir-Committee Member
Mr. Khader Khair-Committee Member
Mrs. Elva Bandi-Committee Coordinator

Bethlehem –Dr. Gmeiner (Al Karkafeh) St.
P. O. Box 59
Tel: +970 2 274 2742
Fax: +970 2 276 4402
Mobile: +970 592 742 742

E-mail: info@bethlehem-chamber.org
Website: www.bethlehem-chamber.org
www.facebook.com/Bethlehem.BCCI