

Ownership and Governance

SEMI's Business Management Module

Aline O'Connor

July 2012

What is governance?

- In the broad sense , corporate governance is the set of internal policies, rules, and procedures that a company follows to ensure that it operates in a fair, equitable, and appropriate manner for the benefit of its stakeholders.

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What is governance?

- In the broad sense , corporate governance is the set of internal policies, rules, and procedures that a company follows to ensure that it operates in a fair, equitable, and appropriate manner for the benefit of its stakeholders.
- Who are the stakeholders?

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Good governance practice focuses on:

- How decisions are made in a company
- Business conduct – ethics, transparency, accountability, human resources management
- Compliance with tax and legal regulations
- Risk management

In a small business, the owner has primary responsibility for governance. This responsibility is best shared as the company gets larger.

Outline

1. Main Types of Companies
2. Ownership Considerations
3. Types and Roles of Boards
4. Which Company, Which Board?
5. Capital Sources
6. Ownership Allocation
7. Payout Considerations

Types of Companies, examples...

1. Large corporation with 100% publicly traded shares
2. Large corporation with less than 100% publicly traded shares (rest held by founders)
3. Privately held corporation
 - One owner
 - Multiple owners
 - Multiple owners who have put in capital
 - Some owners who have not put in capital
4. Family partnership
5. Other partnership

Share Ownership Considerations

- Is ownership free or purchased?
- Timing of ownership
- How ownership fits with management duties
- Expectations of owners

- Liquidity
- Timeframe and future expectations
- Willingness to work
- Other distractions and interests

Types of Boards

Board of Directors

Has bylaws. Responsible to shareholders for company performance, but works at a high level. Approves annual budget, hires/fires the CEO or MD, approves strategy, responsible for making major financing decisions (such as borrowing), responsible for compliance.

Types of Boards

Board of Advisors

Role is to provide advice, and to respond to specific requests for input (e.g., might review strategic plan.) No bylaws, no formal responsibility to mandate actions.

Types of Companies

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Capital Sources

- Public share purchase
- New owners (need to give them shares and dilute what you have, can be active or passive)
- Investors (put money in to get a return, can be active or passive)

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Your providers of capital can stipulate your
Board structure

Ownership Allocation

- Set up number of shares when you set up the company
- Determine the types of shares (formal, shadow, authorized, unauthorized)
- Allocate the shares (do not need to allocate all at the beginning)
- Communicate clearly about what the allocation means to the owner

Ownership Example

1. SEMIs Seeds started out with just two owners in 1995; they both worked and both put in capital. One put in more capital, but it was understood the other would work more and bring bank financing to the company, so ownership was 50/50. There were 1,000 shares.
2. In 1998, they took in two more partners, both worked and put in capital, but their capital was in the form of fixed assets for production.

Ownership Example

3. At this time they went to 1,000,000 shares, setting aside 20% to possibly be given to senior managers under a shadow plan. The partners split the rest.

4. Because of company growth, profitability, and reduced liabilities, their (private) share price has grown significantly over 15 years.

Payout Considerations

- What is best for stakeholders
- Alternate investments
- Upon exit
- Overall liquidity
- Rules of lenders, other investors

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“Some people regard private enterprise as if it were a predatory tiger to be shot. Others look upon it as a cow that they can milk. Only a handful see it for what it really is -- the strong horse that pulls the whole cart.”

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Winston Churchill