Chapter 21

Corporate Governance of IT in Spanish Family Owned Enterprises

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ABSTRACT

IT Corporate governance is the information technology-governing discipline of corporate governance. Governing IT is not a simple discipline: researchers and practitioners have developed frameworks, best practices, etc. The standard ISO/IEC 38.500 sets the principles and activities to be carried in the organization to implement corporate governance of IT. Family-owned enterprises introduce a specific particularity regarding governance: the family. This paper presents an analysis of corporate governance of IT in family owned enterprises, considering this singularity, from the Spanish perspective. Also, it introduces two examples of implementation in family owned enterprises.

INTRODUCTION

Corporate governance is the system in which organizations are directed and controlled (ISO, 2008). Corporate governance is not new, and the effects of bad governance are suffered every day by the organizations. In fact, reports are pointing to bad governance as the key factor for the recent credit crunch (Moxey, 2008). The importance of corporate governance began with the publication of COSO (COSO, 1992) and the Cadbury Report (Cadbury, 1992). Codes of conduct were published on the different countries (ASX, 2007; Vienot, 1995), and then the release of the OECD Principles of Corporate Governance (OECD, 2004) was a milestone in order to standardize the contents and extent of corporate governance code of conducts and practices around the world.

According with the standard ISO/IEC 38.500 (ISO, 2008), corporate governance of IT is the system by which the current and future use of IT is directed and controlled. It is recognized as a part of corporate governance nowadays even in codes of conduct (IDSA, 2009), defining rules and recommendations.
Family owned enterprises differ from traditional companies or organizations. The difference is based on the family. Family is a key element not only from the ownership perspective, but also from the management perspective: family members are usually involved in top and medium-level management, and tend to make decisions just because of their condition of family members. The importance of family owned enterprises in the world economy is huge. Statistics (IEF, 2009) show that family owned enterprises represent about 80% of the companies in the United States, 60% of the companies in the European Union. In Spain, where the current analysis is done, statistics show that 85% of the companies are family owned enterprises, and that represents about 70% of the national GDP. In Spain, family owned enterprises have tools to govern and direct the company and separate family issues from company issues. This paper describes these tools, their impact in corporate and IT governance, and also illustrates this with the experience of two family owned enterprises.

CORPORATE GOVERNANCE AND FAMILY OWNED ENTERPRISES

Corporate governance has its origins on the Agenda problems (AECAE, 2007), that is, the separation between ownership and management, and the need that the ownership has to control the management. Mechanisms such as internal controlling and auditing, the different committees and the existence of independent directors are to be implemented on the companies to try to cover the gap of the Agenda problems.

In family owned enterprises, as said before, a third factor comes to reality: the family. Family does not only own the company, but also is involved in the management, and separating management from the family is a thought task. Real situations, in which family members (siblings, in-laws and other relatives) are located at different positions in organizations, are normal in this type of companies. And this is a simple situation, in which first and second generation (founders and his/her sons/daughters) is only considered.

But there are family owned enterprises in which not only first and second generations are involved on the company, but also the third generation, spouses and also other family members (cousins, uncles, etc.) The more complex is the family, the more issues can be found on that type of companies. Other factors needed to be considered. For instance, the condition of being a family member is sometimes assumed by some people to take decisions affecting the operating and the strategy of the company. And these decisions are taken isolated, and with the only justification of being family members. Moreover, the conflicts between family members can take to the situations in which decisions taken by the top management are not only questioned but also prevented from being implemented by other family members.

Thus, it is not a problem of management or ownership; it is also a problem of governance. Ownership, management and family are intertwined and it is important to define mechanisms to separate clearly the three dimensions.

In Spain, this problem tends to be solved with some tools, especially two: a family protocol, and the Family Council. According with the Instituto de la Empresa Familiar (IEF, 2005), the family protocol is a written and approved document, with

Figure 1. The three dimensions of family owned enterprises
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