Family Businesses: Addressing the challenges faced in today's environment

Family businesses are fundamental to the business landscape of the Middle East and are intrinsic to the region's economy. The challenges faced by today's family businesses are perhaps greater than ever: competing in a more turbulent environment dominated by pluralistic social values, intensified competition, a global economy and rapidly changing politics and regulation. Compounding such challenges are the complex relationships that exist between family members and the delicate balancing act required to combine family and work relationships. Moreover, there is no one rule that governs all – every family business is unique, deriving its personality from generations of family and business heritage.

So how do family businesses face up to these challenges and ensure their success and longevity?

Balancing family and business demands

An equitable balance needs to be accomplished between family demands and the needs of the business, whilst at the same time addressing the complex interaction between the two. As well as dealing with commonplace business issues, such as changes in business and technological markets and challenges from competitors, family businesses must deal with the unique psychological dimensions of having family members work together.

It is critical to understand that each of the key members of the business will have their own objectives, perspectives and goals. Working together intensifies family interactions and can exacerbate family problems such as sibling rivalry or competition between the generations. Unresolved conflicts can undermine the operation of the business, diminishing communication and trust, ultimately resulting in a detrimental effect on the business.

Key issues to be tackled include effective decision-making across the family, management and ownership issues, conflict resolution, facilitating effective ownership of the business, balancing the involvement and performance management of family members with their skill set and those required by the business whilst above all operating in the best interests of the business and family as a whole. It is important to address such sensitive issues in order for the family business to succeed.

Benefits of family business planning

Many family businesses do not have family business planning and governance frameworks in place to deal with the future strategy of their business and families. As a result there are no mechanisms in place to deal with everyday issues such as methods of ownership and policies for change, formalising family employment policies, establishing effective communication and succession planning.

Whilst the need for tighter corporate governance, that is the way in which a business is directed and controlled, is recognised, the importance of family governance remains relatively unrecognised as an essential element in governing the family and its relationship with the business. The establishment of structured planning and frameworks will not only encourage the family to articulate and examine their values, needs and goals on a regular basis, essential to the unification of the family, but also to develop their commitment to the success of the business.

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The benefits to be obtained from doing so are immeasurable and include improved business performance, managing family relationships and expectations as well as sustaining trust and communication. To remain viable, businesses must continually grow and develop, changing and adapting to external environmental factors. Consideration of the family business governance frameworks and regular planning provide opportunities to take stock and gain perspective – something not easily done amongst the pressures of daily business activity. As the family grows and matures, planning is crucial to accommodating changing family relationships/dynamics and circumstances and keeping the family unified. Trust is vital to all organizational relationships; the establishment of a clear and fair set of rules and applying them consistently is fundamental to the building of trust amongst family members.

The planning process is also pivotal in supporting successful management succession, ownership transition, effective governance and profitable business strategies.

Overcoming the leadership challenge and transition to the next generation

Transition from one generation to the next is often one of the most problematic and least planned-for events within family businesses. All too often, family business leaders continue well beyond what is necessary or reasonable in terms of the alternatives, for fear of ceding control over the family business and, to some extent, avoiding their own mortality.

The implementation of plans, mechanisms and frameworks enable a smooth succession process, understood, accepted and agreed by all parties, effective and not damaging to either the departing or the incoming leader.

Whilst the gentle disengagement of leaders is hard to achieve, there is no reason why a staged departure cannot be achieved, with the business benefiting from their wisdom and experience but at the same time allowing the invigorating wind of change to blow. We often find leaders discover a 'third career path' where they can exercise their drive and enthusiasm, in many cases choosing the route of philanthropy as a rewarding area to focus on.

Another challenge is the introduction of junior family members into the business. Obtaining outside work experience can be invaluable and is worth considering as a prerequisite to joining the family business. This enables junior members to gain a realistic view of their skills and abilities as well as to understand the commitment required to develop a successful career. Upon joining, junior members should follow a planned training and development program, not be subject to preferential treatment and be expected to earn the respect of their fellow family members and colleagues.

So how do you establish and implement effective planning and governance frameworks?

Establishing effective planning and frameworks

The extent of the planning and governance frameworks required will depend upon a variety of factors and tends to be something that evolves over time. These factors include: size, complexity and geographical spread of the business, number of family generations involved, total number of family members and their geographical spread, whether the business has non-family executives or independent non-executive directors.

Family businesses in the early stages of establishment require significantly less complex planning structures and frameworks than those that have been running for a number of years and are already employing a number of family members. As the family grows and the business develops, this will give rise to the need for a more structured framework.

There are many elements to the family governance framework. While it is not possible to discuss all constituent parts, key components include: a family constitution, a family council and a family office.

A family constitution is essentially a route map for the family and the business and sets out statements of intent or agreements entered into by the family members in relation to the family business. It is essentially a statement of general principles, outlining the vision of the business, its core values and the family's commitment to them. It provides a documented method for reaching a family consensus on how a number of issues should be addressed, offering a practical guide as to the framework for running the business and dealing with the family business issues that have the potential to cause disputes.

A family council is an organized, self-led, self-determining group that provides a structured forum for family members to meet and discuss the current and future state of the family business and to establish policies or strategies on matters affecting the family. The family council is a way of building family support, unity, empowerment and cohesiveness through a shared vision of the family's guiding principles.

A family office provides a forum to control and consolidate the management of a family's wealth, bringing together business and personal planning to generate one global wealth management plan encompassing the family's values, aspirations and objectives. This is often administered in conjunction with a fiduciary wealth planning structure, such as a private trust company, to provide effective wealth management, succession planning and preservation of family wealth across generations.

Professional advice

Family businesses have a tendency to rely on existing family members, on the premise that they have a wealth of experience that can be drawn upon. This can often be counterproductive and restrict the ability of the business to grow and develop. The use of external professional advisors provides a new raft of skills, competences and experience, as well as independent objectivity not often found among family members.

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A wealth of advice can be provided, covering the issues pertinent to both the business and the family itself. From a business perspective, advice can range from corporate restructuring through to international cross-border taxation and mergers and acquisitions. From a family perspective, the advice can range from establishing family governance frameworks to international taxation issues, wealth management and the structuring of both financial and non-financial assets to achieve effective succession planning and preservation of family wealth.

Such advice allows the business to grow and flourish as well as respond successfully to change.

On a final note, the ability of professional advisors to navigate through sensitive problem areas, both within the business and family, cannot be underestimated.

Conclusion

The global economic and political climate makes it more important than ever for family businesses to implement effective planning and governance frameworks, seeking the assistance of professional advisors, in order to ensure the success of their businesses and the preservation of family wealth across generations. As Harvey MacKay reminds us, "most people don't plan to fail, they simply fail to plan."

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