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# Family businesses

## Beyond three generations

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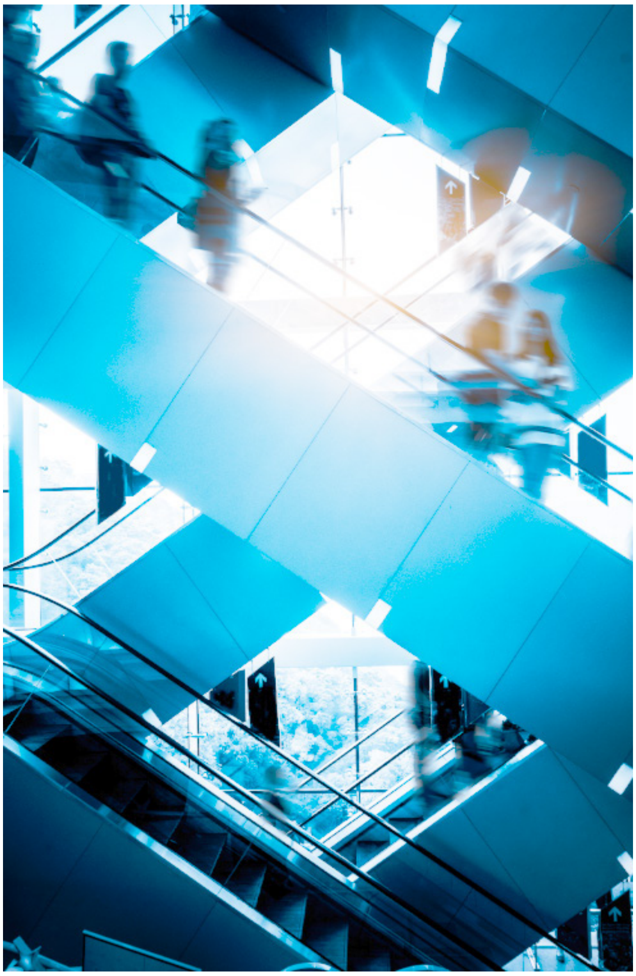
From the smallest mom-and-pop corner shop to large enterprises, family businesses play a powerful part in the economy and are a significant and integral part of the business world. As a family grows and changes, the family business must also evolve to accommodate changing family dynamics.



Families have spent years working hard to build up businesses and make the business successful and one of the top concerns for many family businesses is passing the torch to the next generation. For those fortunate enough to be born into a family that operates a successful family business, it often feels like walking a predetermined path. Is it that easy: to take over from the previous generation, add value to the enterprise, and pass it on to the next generation?

More likely than not, it is an unfortunate reality that a significant number of family businesses fail to sustain their success and it is often claimed that family businesses are inevitably bound to fail over three generations. The stories of decline and failure are told through conventional sayings like 'clogs to clogs' or 'from shirtsleeves to shirtsleeves in three generations’.

In reality, succession in family businesses comes with internal and external pressures, including a changing world, market competition, regulatory challenges, and individual aspirations.  Among the various factors contributing to the decline, an asset holding structure that unites the family members across different generations and prevents decentralized ownership plays a crucial role. Other factors such as inadequate communication, poor management and governance practices, often lead to the downfall of family businesses.

## Loss of control

One of the key reasons why family businesses struggle to thrive across generations is the loss of control resulting from decentralized ownership. When individual family members hold shares separately, decision-making becomes fragmented and can be influenced by personal agendas.

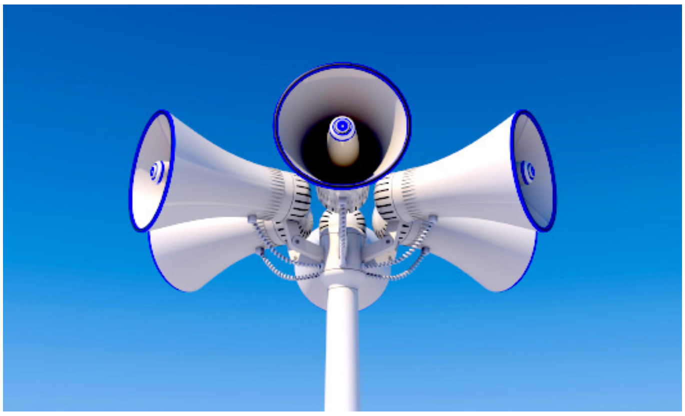
This lack of cohesion often hampers strategic planning, impedes timely decision-making, and creates conflicts that may ultimately undermine the business's stability.

## Lack of communication

Effective communication is vital for any organization including family businesses.

Poor communication within multi-generational family businesses can lead to misunderstandings, conflicts, misaligned goals and fractured relationships. When family members fail to address family and business matters openly and transparently, important information may not be shared in a timely manner, impeding coordination, cooperation and responses.

This communication breakdown can hinder the business's ability to adapt to changing market conditions and seize new opportunities.



## Inadequate management and governance

Another critical factor contributing to the failure of multi-generational family businesses is inadequate management and governance practices.

As the business expands and more family members become involved, professional management and governance structures are often necessary to ensure effective operations.

Without proper systems in place, conflicts of interest, nepotism, and an absence of clear roles and responsibilities can emerge.

This can lead to poor decision-making, ineffective leadership, and a lack of accountability, all of which erode the business's competitive advantage.

## Succession planning challenges

Successful succession planning is crucial for the continuity of a family business. However, many family businesses struggle in this area, particularly when there is little or no communication plan with the family members and delays in succession planning.

In such cases, the process of identifying and grooming suitable successors becomes complex and challenging.  Disputes over leadership positions and succession rights can arise, resulting in family rifts and weakened business performance.

Without a well-defined and transparent succession plan, the family may suffer from a leadership vacuum or inexperienced leaders ill-prepared to tackle the evolving demands of the market.

Over time, disagreements over the distribution and management of assets can fragment family relationships and weaken the collective effort to sustain wealth.

## Unprepared heirs

When heirs are not adequately prepared to inherit and manage family wealth and businesses, they may not develop a clear understanding of the hard work and dedication required to operate the businesses and protect family wealth.

Subsequent generations may not appreciate its value and, as a result, struggle to sustain it.

## External factors and the rapidly changing environment

External factors, such as economic downturns, legal and regulatory changes, and unforeseen circumstances, can significantly impact family wealth.

Without adaptability and resilience, families may struggle to navigate these challenges and sustain their financial legacy. Diversification of investments, proactive risk management, and regular reassessment of wealth preservation strategies are crucial to mitigating the impact of external factors.

While family businesses hold tremendous potential for long-term success, there are numerous challenges the family will encounter and the ability to overcome these obstacles becomes crucial.

Coupled with cumulative experience in serving family businesses, we have seen that an asset holding structure that considers and taken into account the common pitfalls coupled with an effective governance structure plays a crucial role in the effective preservation of family businesses and increases their chances of thriving across generations, preserving their legacy and contributing to economic growth.

## Untangle the complexities

Designing an effective blueprint with long-term sustainability, succession planning and governance policies in mind for a family business may seem daunting, but it doesn't have to be.

A structured approach can reap  benefits, through the following process:

### Diagnostic review

Conduct a thorough review of your current ownership structure. This involves understanding your family's current structure and business, defining the near-term vision and long-term plans alongside identifying and inefficiencies or challenges you may be facing.

To be of real value, reviews should delve deep into the business, financial, and tax aspects. At the end of this stage, you should have a clear understanding of the priority actions and the suitable ownership structures for your family.

### Structure

With insights gathered from the diagnostic review, efforts should now be focused on designing effective structures and explore relevant options that align with your family's purpose and vision.

This stage includes addressing operational, financial, and tax needs defining requirements, estimating timelines and costs as well as governance structures.

### Implementation

Once the family has approved the proposed structure, there is a need to ensure the implementation is done smoothly with ability to adapt to required changes along the way.

Effective communication and reporting among the family stakeholders, senior management and staff are crucial during this phase. The support of professional advisors and consultants can be valuable at this stage.

### Monitoring and review

After the implementation, it is essential to regularly review and monitor the functions, processes, and governance of the structure.

This ensures compliance with the family's requirements and relevant tax and regulatory obligations.

With proper planning, effective governance structures, and professional guidance, challenges can be addressed early and overcome.  A structure that aligns with the family's vision and purpose, along with adequate consideration of long-term plans, can play a crucial role in preserving family wealth and legacy.

The journey of sustaining family wealth and business success may not be easy, but with the right strategies, professional expertise, and a commitment to communication and planning, families can break the three-generation curse and secure a prosperous future for their businesses in the generations to come.

# Contact us

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