

# FAMILY BUSINESS

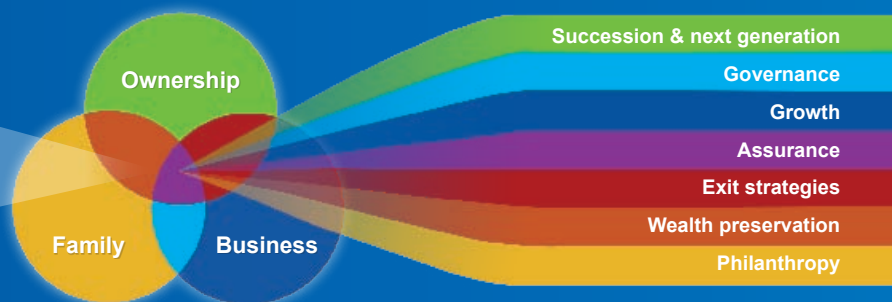


*cutting through complexity*

# Pillars of Success for Your Family Business

Family businesses are unique. At the centre of this difference is the family dynamic, which can play a significant role in decision making and offers both opportunities and challenges. The growth and sustainability of a family business lies in the fine balance between the needs of the business and the expectations of family members.

With its knowledge and experience with family businesses around the world, KPMG has identified seven key pillars family-owned companies should address to serve the best interests of both the family and the business.



## Helping family businesses grow

To support the unique needs of family businesses, KPMG has created a global network dedicated to offering relevant information and advice to family-owned companies. We understand that the nature of a family business is inherently different from a non-family business and requires an approach that considers the family component.

Our goal is to help create harmony  
and long-term prosperity for family-run  
businesses around the world.

KPMG has developed a process that is designed to include and consider all share-holders in the family business. The professionals in our firms' specialized practices seek to be more than trusted business advisors- we help families develop and maintain their positive dynamic.

From the boardroom to the kitchen table, KPMG's family business specialists bring decades of knowledge and experience to each engagement. Our global network of member firms enables us to work across borders and tap into an experienced pool of resources. We work alongside international thought leaders in the field of family business to share leading practices and resources, our professionals also advise on implementing creative and practical solutions to help clients bring their business to the next level.

## Be a part of the conversation

Our dedicated Family Business Blog [www.kpmgfamilypbusiness.com](http://www.kpmgfamilypbusiness.com) features publications, case studies, surveys and opinions on family business. Ask questions and engage with our family business experts by taking part in the conversation online and join KPMG's Family Business Community on LinkedIn and Twitter.



## SEVEN BEAMS OF A STRONG FAMILY BUSINESS

A family business has specific needs; running the day-to-day activities, planning for the future of the company and the family present many crucial questions for the owners. Does everyone in your family share the same vision? The task of realizing the full potential of the business while satisfying the expectations of family members can sometimes be challenging, but certainly achievable with the right kind of help. KPMG member firms' advisers work with family businesses in the areas of Succession & Next Generation, Governance, Growth, Assurance, Exit Strategies, Wealth Preservation and Philanthropy.

## SUCCESSION AND INTEGRATING THE NEXT GENERATION

**“As we move to third generation ownership, we don’t expect our successors to carry on in the same way we did, but I’m not just going to hand it over. This business is the wealth and the security of the family going forward. It’s not about a successor; it’s about a succession process.”**

*Third Generation Family Business Owner*

Sustaining a family business beyond generations is often a challenge and fewer than half of all family businesses survive the transition from one generation to the next\*. Families in business have an opportunity to create a lasting legacy that brings with it a sense of accomplishment and pride. However, succession and integrating the next generation into business is perhaps the toughest and most critical challenge of a family business, involving business management and ownership succession as well as leadership development.

\*Source: Family Firm Institute (FFI)

**Succession** planning ahead of time can help families avoid conflict and ensure the needs of the business are met when the time to transfer ownership of the business is right.

- What are the next generation’s aspirations and best transition plan?
- How do you motivate the next generation to take part in the management of the company?
- Does your succession plan include both ownership and management aspects?

Ensuring that the transfer of **ownership** of the business is done at the right time and well communicated is crucial to its future success.

- How will you organize and secure the family ownership in the event of family dissention?
- Is your legal structure set up in the best way in order to maintain family ownership when non-family financial investors are involved?
- How and when will you transfer shares to the next generation?

Careful consideration should be given to **business leadership** in the succession planning process to ensure that you have the right mix of talent to lead the company.

- What is the best way to organize the leadership of the company and the presence of non-family members?
- How do we prevent family disagreements from negatively impacting the management of the business?

### We’re here to help.

When it comes to succession and integrating the next generation, our firms’ specialists can have confidential discussions to gain an understanding of your issues and concerns. We can then suggest options based on our experience helping family businesses.



## GOVERNANCE

**“Most family-owned companies are successful during their infancy stage. In the longer term though, it becomes necessary to set up the right governance structures and mechanisms that will allow for efficient communication channels and a clear definition of the roles and expectations of every person involved in the family business.”**

*International Finance Corporation (World Bank Group)  
Family Business Governance Handbook*

Starting a family business is easy, relatively speaking; sustaining it beyond a couple of generations is in our view the hardest part. It's often said that the typical family business goes from rags to riches and back to rags in three generations. Better governance of a family business can help improve business performance and satisfy the expectations of all family members.



Governance issues can affect family unity and may be fraught with difficulty. Governance really means adopting a decision making process. Establishing a governance framework that includes a family constitution and code of conduct for family members can help the family deal with changes in the business and family constructively.

**It requires the family to think through important scenarios and agree on family and business goals before critical decisions have to be made.**

- Is there a process in place to resolve conflicts within the family?
- Is there a clearly defined process for hiring, assessing and remunerating family members employed in the business?
- Do you have a family council or a board of governors? If not, do you know how to best set this up in a way that is effective for your family and your business?
- How do you separate business decisions from family decisions?
- How do you manage minority shareholders' expectations?

**We're here to help.**

KPMG's Family Business practice can help companies establish a dialogue between family members, create a family council or board of directors, and develop a family constitution and code of conduct. These effective governance tools can help set up a family business for success down the road and help sustain the business through generations.



## GROWTH

**“Without continual growth and progress, such words as improvement, achievement, and success have no meaning.”**

*Benjamin Franklin*

**Sustainable and profitable growth is an essential ingredient to continued business success.**

While many businesses can achieve growth organically, this can require considerable time and effort. In order to grow, family businesses must consider all of their market opportunities including seeking out complementary businesses for acquisition, potentially divesting non-core businesses, outsourcing functions to increase cost efficiencies and potentially expanding into the emerging markets.

**The larger the business, the higher the likelihood of experiencing increased complexity and costs.**

- Can the business' future capital requirement be satisfied under continuing family ownership?
- Does the family ownership and management have the necessary expertise and contacts to grow?
- What strategies can be put in place to rapidly and successfully integrate new acquisitions in the family group?
- What are the best ways to deal with the uncertainties and risks that growth presents?
- Is the company prepared for international expansion?

**We're here to help.**

If your business is looking to grow, our advisers can help. By developing a solid growth strategy for your company, we consider all the possible avenues for growth and can help you achieve new heights.

## ASSURANCE

“Risk is like fire: if controlled, it will help you; if uncontrolled it will rise up and destroy you.”

*Theodore Roosevelt*

The need for effective risk and controls management is crucial in an environment of increased scrutiny. It is important to manage these risks in a family-run business, not only for the business itself, but also for the family, property holdings and capital. It is generally agreed that family businesses have a competitive advantage over their non-family business counterparts; however, this competitive advantage can quickly turn into a threat if not properly managed.

By managing internal and external risks, opportunities can also be created. Implementing **controls**, securing new **financing**, efficient **tax management and optimization** can all have a positive impact on the bottom line of the business.

- What kind of internal and external controls do you have for the business to try to ensure that you won't have any surprises?
- Are you equipped to protect your company's technology and processes against unauthorized access?
- What are the best tax strategies for your family business and for the family members?
- How do you measure risk management's return on investment and make communication a top priority for your family business to define its processes, value and effectiveness to key stakeholders?
- Do you have agreed upon guiding principles and abide by them to reduce conflicts in your family business?

### We're here to help.

As trusted business advisers, KPMG member firms help clients manage the risks in their business, so they don't need to carry the burden alone. When it comes to financing, tax management and implementing controls, KPMG can help you be proactive and assess your risk areas and put strategies in place to help you gain control.



## EXIT STRATEGIES

**“The secret of success is to be ready when opportunity comes.”**

*Benjamin Disraeli*

**Sometimes, an exit strategy rather than a succession plan is needed as there isn't a next generation of family members who are ready, willing or able to continue the business.**

The sale of your business is most like a 'once-in-a-lifetime' transaction, with just one opportunity to get it right. There are many options when considering an exit from the family-run business, KPMG firms' professionals can work with you to examine the options available to you and assist with the transaction itself.

- What are the options available to you when considering the sale of your business?
- Do you know the true value of your company?
- If you got an offer today, would you be willing to sell?
- What are the legal and tax strategies that need to be put in place?
- What is the best way to reinvest the proceeds for the future of the family?

### **We're here to help.**

KPMG firms' advisers have extensive experience selling companies while maximizing value for the business owner. From valuation and securing buyers, to engaging in negotiations, completing transactions and tax implications, KPMG can advise you every step of the way.





## WEALTH PRESERVATION

**“ You can be young without money, but you can’t be old without it.”**

*Tennessee Williams, American playwright*

The subject of money is an eternally contentious one and without any doubt raises more anxiety than any other area for those involved in a family business.

**Often, the long-term vision of wealth preservation is misunderstood by every member of the family, particularly the next generation.** For this very reason, this element of the family business requires careful planning to prepare family members for the responsibility and emotional impact of wealth and to protect business assets.

- Are all of your family’s assets (both tangible and intangible) well insured?
- Do you know the key principles regarding wealth management and how to implement them?
- Are you comfortable with your cash flow needs and managing liquidity?
- Is there a way to optimize the structure of your assets?

### We’re here to help.

KPMG can advise on the strategy for family investments, trusts as well as retirement and estate planning. When it comes to wealth preservation, careful consideration must be given to tax planning and implications, our family business advisers are here to help you avoid pitfalls.

## PHILANTHROPY



**Creating a strong business and building a better world are not conflicting goals - they are both essential ingredients for long-term success."**

*William Clay Ford Jr. Executive Chairman, Ford Motor Company\**

**Philanthropy is an important aspect of wealth management, comprised of philanthropic goals and wealth transfers through charitable giving.** When a family business is committed to giving money, assets and wisdom, it can positively benefit society, communities and the environment. To meet a family's philanthropic goals, it is not only important that the options for giving are aligned with a family's values, but are also an effective tool in wealth and tax management.

- Do you know the advantages of establishing philanthropic goals?
- How and why should the family engage in philanthropic activities?
- What are the advantages and the costs of charitable giving?
- Does your family share the same vision for philanthropy?

### We're here to help.

Giving back in a socially responsible way is core to our firms' identity. KPMG employees are encouraged to volunteer with charities of their choosing and many are active members in their communities. Our family business advisers can help you develop a strategy for philanthropic giving, advise on tax efficiencies, advise on how you can manage your relationship with the charity and help educate other family members on the benefits of charitable giving.

\* 2009-2010 Ford Motors sustainability Report



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Visit the KPMG Family Business Blog:

**[www.kpmgfamilybusiness.com](http://www.kpmgfamilybusiness.com)**

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