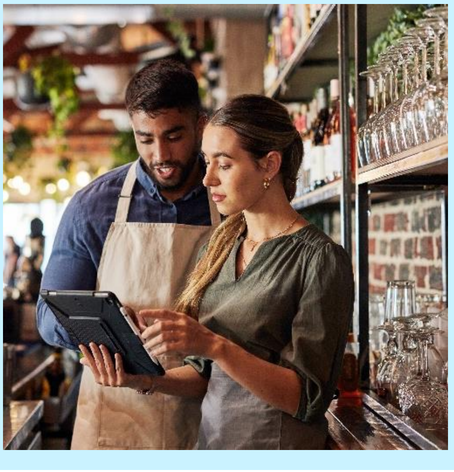
KPMG
Private Enterprise


# Family Business Governance: Managing Dynamics for Long-Term Success in South Africa

**Series 1 of 5**

Family businesses are the backbone of the global and South African economy, contributing significantly to the country's GDP and employment. However, these businesses also face unique challenges, particularly in managing the complex interplay between family dynamics and business operations.

This article explores the importance of effective family business governance in navigating these challenges and ensuring long-term success of the business and the family.



## The Importance of Family Business Governance

Family businesses often involve a multitude of personal and professional relationships, making it crucial to establish clear governance structures. These structures, where appropriately considered, designed and implemented, provide a framework for effective and transparent decision-making, conflict resolution, and succession planning, ensuring the business operates smoothly and remains focused on its goals, underpinned by the family’s values and shared purpose.

Effective governance goes a long way to:

1. **Managing conflict***:* By establishing clear roles and responsibilities, communication channels, and conflict resolution mechanisms, family businesses can minimise the potential for disagreements and ensure that important issues are addressed constructively.
2. **Driving professionalism***:* What is important to note is that one is not looking to corporatize the family business, rather that the appropriate governance structures are in place, to help to separate family matters from business decisions, promoting professionalism and objectivity in the workplace.
3. **Facilitating succession planning***:* A well-defined governance framework provides a roadmap for the smooth transition of leadership and/or ownership to the next generation, ensuring the business's continuity and legacy of the family.

For the founder, starting and growing the family business is difficult, but what can be insurmountable is sustaining it beyond the second, or even third generation of the family – if one were to identify with the well-known statement of ‘rags to riches and back to rags in three generations’. Global research confirms the truth of this statement, with fewer than half of all family businesses surviving the transition from each generation to the next. The result is that only around 10 percent will make it to the fourth generation. It’s a sad commentary on the reality of family business, which as noted upfront are the backbone of the global and South African economy.

## Addressing the Complexities of Family Dynamics

The unique challenge family businesses face is managing family dynamics, which include

### Emotional involvement

Family members may have strong emotional attachments to the business, which can cloud decision-making and lead to conflicts.

### Differing priorities

Family members may have different priorities and goals for the business, leading to disagreements and power struggles.

### Generational differences

Different generations may have different values and perspectives, which can create challenges in communication and collaboration

All the above-mentioned challenges form part of the socio-emotional wealth that differentiates family and non-family businesses. As with any challenge, if managed appropriately they often create opportunities, and this is no different for family businesses that have a strong socio-emotional wealth, which can positively influence the performance of family businesses, if the family business successfully embraces and manages the above challenges as an important guide when making strategic decisions[1].

All is not lost for family businesses, as there are many successful family businesses that are sustainable and future-fit for many generations to come. The secret to these family businesses is that effective family business governance has helped to address these challenges by:

Developing a shared vision for the family and the business that all role players and stakeholders can agree on can help to align priorities and goals.

Defining the roles and responsibilities for both family and non-family members within the business is essential. This includes clarifying ownership structures, management positions, and decision-making authority.

Establishing clear boundaries between the family, the owners of the business and the business should help to prevent emotional involvement from impacting business decisions.

Encouraging open and honest communication among family members should help to resolve conflicts and build trust. Regular family meetings, clear communication channels, and access to relevant information are crucial for maintaining trust and understanding among family members and other stakeholders.

Establishing clear and fair processes for resolving conflicts (e.g. mediation, arbitration, or other conflict resolution strategies) is essential to prevent disagreements from escalating and impacting the business. The process should recognize and respect the different perspectives and values of each branch and generation of the family to foster collaboration and understanding.

A well-defined succession plan should consider the skills and experience of potential successors, as well as their commitment to the business. For the succession plan to be a success it is important for the family (and key non-family role players) to understand that succession is a process and not a once-off event.

[1] (Debicki, Kellermanns, Chrisman, Pearson & Spencer 2016

There is one document which encapsulates all of the above to guide the current and future generations to implement effective governance structures. This document being the family constitution (sometimes called a family creed, family charter or family agreement).

The fifth edition of the KPMG and European Family Business (EFB) Barometer[2] found that 93 percent of respondents (97 percent in Africa) believe that having good governance structures and processes in place are a key driver to success for a family business. However, the same survey also found that only 21 percent of respondents (14 percent in Africa) had a family constitution or code of conduct. So, there is definitely room for improvement for family businesses globally and in Africa.

## The Role of Non-Family Members

Non-family members play a crucial role in family businesses, bringing valuable skills, experience, and objectivity to the table. The importance of their role is that the non-family members can:

- Provide independent perspectives and objective insights and where appropriate challenge decisions and assumptions made by the family, helping to improve decision-making.
- Bring in new ideas and introduce different perspectives and experiences, helping the business to innovate and grow.
- Act as a sounding board to provide a safe space for family members to discuss ideas and concerns.

The non-family members can work within the business, or be non-executive independent directors, independent trustees or even independent trusted advisors to the family and the business. What is important to ensure is that non-family members are fully integrated into the governance structure and have a voice in decision-making.

## Concluding thoughts

Family business governance is essential for navigating the complex dynamics of family-owned enterprises. By establishing clear structures, fostering open communication, and implementing effective conflict resolution and succession planning, family businesses can ensure their long-term success and preserve their legacy for generations to come.

## We are here to help

KPMG Private Enterprise family business advisers understand that family dynamics can make it difficult to come to an agreement on the best strategy for growth.

There is not a one-size-fits-all answer — our advisers can help you explore all of your options and find the approach that is right for your business and the family.

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