What are the key considerations to ensure a family business is successful?

The key factors affecting family businesses can often be more complex than those facing non-family run businesses, due to the pivotal role which the family itself plays and the dynamics that are often present. If a business is badly handled and does not have a clear long-term plan for its future, issues are likely to arise further down the line which it may not be able to deal with effectively. Below is a list of eight of the key considerations that all family businesses need to think about and revisit throughout the company's growth:

1. **What is the long term strategy?**

It is important for every business owner to have a long term strategy in place in order to grow the business. This strategy should be a unified vision for the future of the business, and in regards to a family run business, this vision needs to be shared by all members.

In terms of how this strategy may differ in a family business, to a non-family run business, it should also consider whether any external investment would ever be contemplated, or if not, can the necessary investment can be found from within the family unit?

2. **What are the values of the business?**

Which is more important: the business or the family? First of all, the reasons for the family entering into business together and how the business was formed will need to be looked at. Is this still the same as now given that the company is growing? When looking at the historical core values of the family or the business, it should be decided which are important to maintain and which should be re-visited and perhaps updated or replaced as the business evolves.

3. **Who can share in the ownership of the business?**

Should this be limited to bloodline family members who work in the business, or should this be extended to all bloodline family members, such as in-laws and/or non-family directors? The decisions regarding this may change as the business grows and as time passes.

Depending on the needs and values in each particular family business, there can be a difference as to who has voting control and say in the day-to-day decisions and who just has share in ownership of the company but is not involved in the decision making. Shareholders should consider whether the shares they own as a capital investment can be sold to raise capital, or alternatively are an asset to be passed on to the next generation.

4. **Who should receive dividends?**

The structure of the business and the needs of the owners should be considered and an appropriate dividend policy put in place. It may be decided that this should be fair for all family members, or alternatively it may compensate some family members better than others, to reflect their role in the business.

Another factor that may need to be considered is whether all or any of the family members are dependant on dividends from the business, or whether they have other forms of income. It is possible to have different classes of shares with differing rights to dividends.

5. **How should the business be governed?**

A family business needs family governance as well as corporate governance, particularly where it is more than two generations old. Corporate governance should deal with the way in which the business is directed and controlled, whereas family governance should deal with the governance of the family and its relationship with the board.

The governance structure required by a family business is much dependant on a variety of factors, including its size and complexity, the number of generations and family members involved, whether the business is exclusively run by the family, or whether non family independent executives are appointed.

6. **How should the board be made up?**

The role of the family business board is much the same as that of the board of any other business, in that it is required to establish business policies and strategy, delegate authority and monitor performance, establish appropriate procedures, and communicate with shareholders and stakeholders.

However, the board of a family business has the additional responsibilities of ensuring that the business is conducted in accordance with the family's long term goals, regulating and appraising the family's involvement and setting boundaries between the family policies and strategy, and business policies and strategy.

The composition of the family business board, and the formality of its proceedings (or lack of), will inevitably change as the business develops and the family grows. In the early days of a business, there may only be family members on the board, however as the business develops it will become more important that the roles of chairman and managing director are not occupied by the same person. Some larger family businesses may even opt for a two-tier board structure.

7. **Can any family member be employed and who decides the terms?**

Should there be criteria for employment of family members in the business? For example, what length of experience, if any, in another business should be required? Or are there are relevant qualifications that are necessary before a family member can become an employee? The company may decide to run a mentorship program for new members to the business.

As a check and balance procedure, it should be considered who is the most appropriate person to determine remuneration, job description and to conduct appraisals. It may be decided that this should be carried out by a non-family independent executive, if there are any.

8. **What are the plans for the next generation?**

A plan for exit for family business owners will differ greatly, dependant on whether they are intending to pass the business on to the next generation of the family or whether they are looking to sell out to a third party.

It is beneficial for all members of a family business and the potential future owners to have open, honest and frank discussions about the future and each party's hopes and expectations. These conversations can sometimes be difficult and for that reason, many are often put off. However, honesty early on can help avoid confrontation and disputes later down the line.

By understanding the options and potential pitfalls, the transition from business owner to successor is more likely to succeed and the family can then make informed decisions. We have recently published an e-book which looks into succession planning in more detail, exploring everything that needs to be considered. The book, entitled Succession and Planning in Family Businesses: The Options and Pitfalls, can be viewed here.

How can Family Business Group NW help you and your family business?

Our team are experts in family businesses and will provide sound and practical advice to meet your needs. We can help you avoid the pitfalls and indeed help you take the opportunities to move your business in a successful direction. Contact our family business team on 0161 926 9969.