

Focusing on business families



Developed from the vision and hard work of the founder, family businesses take on their unique character as new members of the family enter the business. At best, the environment can be inspiring and motivating. At worst, it can result in routine business decisions becoming clouded by emotional issues.

Introduction

In the UK, family businesses of all sizes and type dominate the private sector. Research tells us that as many as 85 per cent of European businesses are family owned. World-wide, some of the most successful and professional companies are family owned and run – many of them household names.

However, although the family business sector is alive and well, many people in the wider business community are unaware that owners and managers of family businesses face many unique challenges.

Commitment, culture and pride in the business are typically inherent strengths of a family business. Together they can produce a significant competitive edge. However, if owners and managers fail to reconcile both the short and long-term needs of the business with those of the family, this can undermine the survival of the business itself.

In the following pages, we explore some of these issues and suggest how you can overcome them.

What defines a family business and how they are different?

A family business might be defined as a business in which one of the following applies:

- a single family holds more than 50 per cent of voting shares, supplies a significant proportion of the business' senior management and is effectively controlling the business
- more than one generation of the family is involved in the business
- most importantly, the family regards the business as a family business.

If yours is a family business – it is in essence just like any other business – it aims to create wealth by providing a product or service. However, as a family business, it differs from other businesses because it has to cope with the fundamentally different demands of the business and the family.

Businesses are task-based and built around contractual relationships in which people perform agreed jobs in return for agreed remuneration. Consequently, the emphasis is on performance and results. Businesses need to innovate and embrace change to ensure their survival.

Families, on the other hand, are emotion-based. Members are bound by deep emotional ties and relationships they can be introspective and place high value on long-term loyalty and nurturing family members. Often, keeping change to a minimum preserves the equilibrium of the family.

In non-family businesses, the demands of the business are rarely impacted upon by emotion. In a family business however, the objectives and priorities of the business and the family can differ widely, producing friction and conflict.

But by applying sensitive, positive management, you can more than simply overcome such issues; with effective and thoughtful communication, and by using the strengths of your business and your family, you can unlock the true potential of your business.

The BDO Centre for Family Business

The continued success of the family business sector is critical to the UK economy. Yet, surprisingly, little guidance is available on these unique and complex issues that family businesses face. One organisation, however has made available the guidance and help family businesses need.

Launched in 1992, the BDO Centre for Family Business (formerly the Stoy Centre for Family Business) was the UK's first organisation dedicated solely to serving the family business community. We are committed to:

- guiding and advising family businesses on how to reconcile the often conflicting needs of the family and the business
- providing a framework within which family businesses can share information and learning experiences
- raising the profile of the family business sector and increasing understanding of family business dynamics and the unique issues they face in the wider business community.

Today, the BDO Centre for Family Business operates out of a network of 15 regional business centres around the UK. Our specially trained and licensed consultants are widely recognised authorities on this complex sector. As respected professionals, they combine many years of practical experience with a continuing commitment to family businesses. Their objective expertise makes the BDO Centre for Family Business a valuable resource for any family business.

You will find the BDO Centre for Family Business helpful if you are preparing to undergo structural or strategic change, wish to confront a specific issue that has arisen because of the family's involvement in the business, or quite simply, if all is well now but you want to avoid any future difficulties arising.

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What are the key issues faced by family businesses?

Rapid social, technological and economic changes are forcing all businesses to review their operations. This can present particular challenges for the owners and managers of family businesses. Heritage and tradition may have been central to your business's development, making it difficult to adapt to change and produce the innovations needed to ensure your business's continued survival and growth. If you need to adopt new ways of doing business, you may not only change accepted practice, but could call into question the very foundations of your business.

Every family business is unique, shaped by its own set of distinctive personalities, objectives and relationships. It is possible, however to identify challenges that are common to all family businesses.

Communication

Do you rely on informal methods of communication to keep family shareholders informed about their businesses? Do all the family shareholders feel they understand the objectives of the business? Do you feel family and non-family members have equal opportunity to air their views? Do working and non-working family shareholders all feel that their differing agendas are well understood and looked after? Your answers to these questions may reveal some real communication issues within your business.

Management of change

Change is a constant in all businesses. However, family businesses can be resistant to change. Not simply because of how this might impact on the business, but also because of the effects of change on the family. Understanding how you can ensure that your business evolves and keeps pace with a rapidly changing marketplace, whilst preserving the competitive edge offered by the strong family culture within your business, is critical.

Employing family members

Experience shows that a family business is less likely to be successful if it employs family members to the exclusion of others. Introducing external expertise, and the fresh thinking this brings, can be valuable at all levels of the

business. But employing non-family personnel brings with it several issues. Who should be promoted first, family or non-family? Should everyone be remunerated in the same way? Do you risk alienating family members who feel they have been 'passed over' in favour of a non-family colleague? Do non-family managers feel their career progress is blocked by family members? Should shares be made available to non-family?

Transferring the business to the next generation

Sadly, many family businesses do not transfer successfully from one generation to the next simply because they do not plan adequately or appropriately for succession.

Considering how your business will continue when you end your involvement means making some tough decisions. Is your son or daughter the most suitable person to take over the business? They may be best qualified for the role, but does he or she actually want it? Should you bring in someone new? How will you fill your time once you have retired?

Core services

From our experience, built up over many years of working with family businesses, we know that no two are the same – nor are the commercial or competitive pressures that affect them. For that reason, we tailor our approach to the specific needs of the family and the business involved in each assignment we undertake.

The core services that the BDO Centre for Family Business offers its clients are:

Managing succession

When planning for succession, it is important to consider the health, state and size of your business and its competitive environment. And, of course, the tax position of the company and of the individual family working within it.

But before you can act upon these, there are other critical issues you have to tackle that are far harder to deal with. These relate to the

availability of potential family and non-family successors, as well as the needs and expectations of the family and of those individuals within it. Because this process involves overcoming powerful psychological barriers, many owners and managers of family businesses fail to plan and manage succession adequately. The succession statistics for family businesses speak for themselves.

Formalising a family constitution

A family business can significantly improve its chances of survival by drawing up a set of rules and protocols for the family. This would set out ground rules governing the family's relationship with, and responsibilities within, the business. Most commonly known as a Family Constitution, it can, when written well, replace much of the uncertainty of the future with the certainty of a fair and equitable structure in advance of any issues arising.

Formalising a Family Constitution requires high levels of commitment from all concerned and a willingness to talk to one another frankly. Reaching consensus can take time, but this is an essential part of the process and requires careful management.

Improving communication

When the emotional, subconscious needs of a family emerge within the context of a business, family relationships can become difficult. The consequences of this can, if left unresolved, be destructive and far-reaching for the business. The conflicting parties become entrenched and arguing becomes more important than the issue being debated. It can carry on for years, draining the business of its strength, vitality and, eventually, its lifeblood.

In such circumstances, it is important that you put the difficulties into perspective and depersonalise them. This can only be achieved by providing a framework within which family members are able to air their viewpoints and be open and honest with each other, but without dwelling on the past. Effective communication is the key.

“No two family businesses are the same.”

Why use an adviser?

An essential ingredient in helping any family overcome and successfully manage business and family issues is communication. But because of the dynamics of family business relationships, communication rarely works efficiently.

It is worth considering therefore whether a family member is the best person to drive the process forward in an objective and detached way. It may be more appropriate to employ an independent, neutral adviser with expertise in the field and, crucially no family involvement or bias. Such an individual can:

- educate all members of the family on the issues affecting family business and offer advice based on experience gained from working with other family businesses who have faced similar challenges
- promote discussion among members of the family and guide them towards reaching consensus.

Who should I talk to?

The BDO Centre for Family Business is here to help, so please contact us at your nearest office or visit our web site, www.bdo.co.uk/cfb. Please see the back cover for contact details. We can then send you further information or arrange an appointment at a convenient time to discuss how we can help you in managing your family business issues more effectively.

By using the strengths of your business and your family, you can unlock the true potential of your business.

About the BDO Centre for Family Business

The BDO Centre for Family Business is a specialist consultancy of BDO Stoy Hayward.

BDO Stoy Hayward is the UK Member Firm of BDO International, the world's fifth largest accountancy network, with more than 600 offices in over 100 countries.

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