Family Business

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A family business is defined by the way its operations are driven and managed by the family or family concerns, which is specific for these type of businesses. Succession planning and next generation governance, growth, assurance, exit strategies and wealth preservation are the key areas that need to be focused upon in a family business. Christophe Bernard, Global Head of Family Business at KPMG spoke about the various aspects of this unique segment during his visit to the country for the launch of KPMG's Family Business Unit in Sri Lanka.

By Udeshi Amarasinghe Photography Menaka Aravinda

A family business is like any other business where governance could be related to its internal controls, which are very important. "Having your name in the family company is one aspect, but it is not the only thing. Ensuring good governance is the only way you can make sure that all family interests are taken into account where a good family vision will ensure that the business can grow and develop as well as possible," explains Christophe Bernard. Usually in such businesses family members are shareholders as well as owners. However, there are instances where the family may not be the owners per se. "If the family is the owner whatever decisions that are taken on the business side has to be in accordance with the family. That is what we describe as parallel planning. In parallel planning it is important that you draw a line between the business and the family vision," he elaborated further. This would include decisions on whether the profits are reinvested or shared as dividends. "If all family members agree on the strategic vision that is good for the business then it is going to be perfect."

Governance is essentially about good communication and decision-making. The three circle model describes governance in family-owned businesses. "This is really a template, which can help you to get a better understanding on a how family businesses should be run," explains Bernard. A person can be part of the family and neither own nor manage the business. There is also the option where a person can be a part of all three. The key is how to relate the business and the family, and maintain a balance between the two groups. "In the first generation the family may be the owners as well as part of the management. However, when it comes to the third or fourth generation, the family may not be as involved in the business as the first generation, but they are still the owners. How can we ensure that they understand the needs of the business and there is parallel planning where the business has to align the family vision and the family values?" asks Bernard. It is here that governance needs structure, whether it is formal or informal depending on the size and number of people involved. "In order for family businesses to be successful, it is important for them to have two CEOs. One is the Chief Executive Officer like in any business, who will execute strategy as decided by the board. The other CEO is the Chief Emotional Officer. That is the person who will be in charge of rationalising the emotions of the family," he describes. The Chief Emotional Officer will discuss any personal challenges so that they can then move on to the business issues.

At times due to the fact that there may not be proper succession, a family business may fail. In order to address this challenge the three circle model can provide valuable insight. "Just because a person is the owner of the company, it does not mean that they will be good at managing the business. Therefore an advice that I often give to my clients is that think about hiring a non-family executive who is going to be in charge of the management. It is important that they execute the strategy that is decided upon as a family. It is also easier to let that person go if you are unhappy with his/her work. Therefore, succession in management should not be an issue as long as you hire a person with the required competencies," affirms Bernard.

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Succession in relation to ownership may be a major issue as a business needs to find a person who is interested in keeping the business in the family. "That means you need to explain to the family member what the business is about and make them understand what ownership of the business means," he said while further adding, "parents should not make the decision for their children because if they are unhappy then the business will collapse. I recommend to any family to begin the discussion as soon as their children are 15 years old. It doesn't mean that you should transfer the business or begin the succession planning at that time. But it is to initiate the dialogue because it may take another ten years, but then it will give you time to find the right successors.” In the event that a successor cannot be found then the family always has the option of selling the business. “In Europe 50 percent of successions are failing. What I mean by failing is that the family is losing their control. And one of the major reasons for that is that the governance mechanisms are not in place,” asserts Bernard.

Preserving the value of the firm is very important. Following the economic crisis in the West, the goal of many owners of family businesses has been to transfer the business to the next generation. Family businesses usually take lower risks and focus on the long-term than gaining profits in the short term, which enables them to strengthen their businesses as opposed to corporates that have to show high performance in the short-term. KPMG recognises that it is always good for a country to have more family businesses as they provide the strength and stability to a country’s economy. “I find that 70 percent of global GDP is provided by family businesses, which is significant. I must also add that since 2008, family businesses have become trendy and fashionable because they provide work on a long-term strategy. Focusing on values and long-term strategy will probably be the solution to the economic crisis we are facing in Europe,” notes Bernard.

KPMG’s family business practice focuses on assisting companies to establish a dialogue between family members, create a family council of 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 and help sustain the business through generations. All over the world, KPMG is focusing on family businesses. “The amazing thing about family businesses is that wherever you are, it could be in Sri Lanka or anywhere else in the world, the issues that you may face will be comparable to any other country. A family is a family whether it be in Sri Lanka, Europe or South America and issues a family is having, or will face are the same all over the world. And, KPMG has the experience and the knowledge as well as the capacity to assist family businesses with their issues in order for their companies to grow,” he explains. Furthermore, “Thamali Rodrigo is the Sri Lanka expert on Family Business issues having been trained and supported by KPMG Global with her team who can assist such companies in Sri Lanka,” says Christophe Bernard on a positive note.


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