FINH

Why a Family Business Needs a Specialist Adviser.

Research conducted at Texas A&M University shows that family businesses that follow a fully-integrated business model outperform any other business models. Fully-integrated businesses can harness the strengths of a strong family group with a professional corporate structure to make decisions faster, respond to challenges better, and do better over the long term than other non-family companies.

Family businesses can be found across all industries, from software to construction. While many people tend to think of family-owned businesses as being small ventures, they can be of all sizes, from large companies such as Mars Corp in the US to the chip shop on the corner.

Regardless of their size, family businesses are more similar to each other than to non-family-owned companies of similar size. While these differences form part of the unique strengths of family businesses, they can also create challenges for families and their advisers.

How Family Businesses Are Different

Key factors in the success of family businesses are:

- A commitment to entrepreneurialism and stewardship over multiple generations;
- A long-term view of success;
- The need to fully integrate family and business.

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Family businesses are unique in that each generation continues the entrepreneurial legacy of the business founder. Many family business leaders consider themselves stewards of the family's wealth and values, adapting the business as times change. A challenge for families is maintaining that entrepreneurial drive in successive leaders.

Unlike publicly-held corporations, family firms are much less likely to chase short term performance, preferring the virtues of “patient capital” and sustainable long-term value. This long-term view means that these firms are much less likely to downsize in a bad economy, and have lower employee turnover than firms of similar size.

Special Needs Require Special Advisers

Family businesses need advisers who are experienced in the unique challenges facing a family business. Many accounting firms and other business advisory firms have years of experience providing business with strategic advice; however, many are not qualified to advise family-owned companies on their special issues. Without the necessary experience, these advisers may not understand non-financial issues like succession planning or the role of the family in the business.

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Many family businesses turn to specialist advisors when the firm outgrows its current structure or succession planning becomes an issue. When setting up governance structures in the business, it is extremely important to incorporate the family into the business as well. While some advisers try to keep the family outside of the business governance structure, we believe that this is precisely the wrong tack to take.

By not considering family governance issues, family-owned businesses can fail at setting up boards and other business structures. Many companies attempt to fill their boards with outside professionals and advisers with no understanding of the special nature of family businesses. When advisers don’t understand the nuances of a family business, it can lose the qualities that made it a success in the first place.

An approach that works with many family firms is to set up a family council to guide decisions at the family level and set up a board of trustees for business-level decision making. Each body must communicate with the other – without buy-in from all concerned parties, any business structure is useless. It is critical to introduce changes at a pace that the family is happy with, preserving harmony at the family level and long-term strategy at the business level.

Family members can be asked to take on many different roles in both the business and the family: a role in the family, an ownership role in the business, and the role of an employee. By formalizing governance structures such as a family council and a board of trustees, families are able to separate these roles; over time, family squabbles don’t spill over into the business and business issues can be dealt with before becoming familial problems.

The need for full integration between family and business is rarely more important than when dealing with succession. For a fully-integrated family business, the transition between generations is not an event so much as an ongoing process that occurs over a span of many years. Potential successors have been guided through a series of phases: gaining experience outside the firm, learning the family business, learning how to lead, and finally, taking on leadership roles within the firm.

About FINH

FINH is a niche advisory firm providing expert services to family business groups. We offer a wide range of services in the areas of Business Strategy, Accounting and Tax Planning, Wealth Management and Investment, Valuation and Succession, and Finance and Governance.

We specialize in working with family businesses and offer our clients the benefit of fully-integrated advisory services designed to help our clients meet their present and future business needs. We believe that family businesses have unique needs and advantages and have dedicated ourselves for over 30 years to providing specialist services to help clients overcome these challenges.

FINH have been accredited advisers with Family Business Australia since 2006 and the international organisation Family Firm Institute, since 2010.