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## FAMILY BUSINESSES BEYOND GENERATIONS – SUCCESSFUL SUCCESSION AND FAMILY LEGACY



***Handing over the reigns of a thriving and profitable family business to the next generation is of utmost importance. The first generation of the business has worked hard to ensure success, and established a reputation for the family and the business that they wish to maintain for future generations.***

To ensure the future success of the business and the endearing wealth of the family for generations to come, it is important that the management and operation of the business, as well as the business assets, are transferred appropriately.

### **FAMILY AND BUSINESS GOVERNANCE**

With multi-generational family businesses it is important that there is a distinction between the business and the family, to ensure that family issues do not affect the success of the business. Many family businesses have lost substantial value if the second generation is unable to cooperate and manage the business successfully due to other family conflicts. By ensuring there is a clear distinction between the business and the family and having the right mechanisms in place, issues can be addressed in the right forum with optimum results.

To distinguish between the operations of the business and the dynamics of the family, a forum for both needs to be determined. In the business context a board of directors would make the relevant decisions and manage the business, and this would usually include both family members as well as independent people outside the family. In the family context, a family board or family council would provide the governance required to manage the ongoing needs of the family, and ensure that the operation of the business is not tainted by family issues. This would consist of a majority of family members, with one or two independent individuals to assist in the effective operation of the council.

A family council provides the forum for family matters to be discussed, issues resolved, and also nurtures the advancement of members of the family both within the family itself and for inclusion in the business. Family members working in the business need to recognise that it is a business that needs to be operated as such, not an avenue for their personal endeavors or to express family issues. Thus, the introduction of a family council can ensure that the business is operated successfully without family incident, as any family issues are resolved in a different forum.

The family council can also ensure that the family's involvement in the community is consistent, maintaining the reputation of the family. This collaborative approach can also be applied to the philanthropic endeavors of the family, which is also an appropriate means to involve younger members of the family. The family council can also formalise the values and shared vision of the family, such that this is carried through to future generations.

### **NURTURING FUTURE GENERATIONS AND BUILDING THE FAMILY LEGACY**

One area of family succession requiring specific focus is the introduction of younger family members into the family business. Although this may be the natural progression of the younger generation, their integration into the business needs to be formalised and consistent.

It is often the expectation that children will work in the business, however the expectation can be problematic:

- They may not work hard in the business as their involvement may be considered a birthright, rather than being a privilege that they must earn;
- They may not have the relevant experience or skill to work in the business, and thus the business itself may not be run efficiently;
- They may expect to be given a senior position in the business from the outset, rather than working from the ground up like other employees (and be remunerated as such);

- As they are family, they may be appointed to management positions ahead of other hard working employees without demonstrating the appropriate skills and experience;
- If it is expected that they will inherit the business, they may be paid a salary well below market in recognition of the future value of the business. This underpayment of salary can accumulate as an asset of the child and be treated as such from a family law or bankruptcy perspective.

To prevent the above issues from occurring, it may be worthwhile to formalise the introduction of family members into the business such that it is consistent, and to reward performance:

- Have specific job descriptions for positions in the company which apply to both family members and other employees. Therefore, if a family member wants to be appointed to that position, they must meet the criteria;
- Outline key performance indicators for remuneration and promotional purposes, which applies to both family members and other employees;
- Determine the appropriateness of requiring family members to work in another unrelated business in a similar industry to gain experience before integration into the family business;
- A market rate of remuneration with performance criteria will ensure that family members are working in the business appropriately and efficiently and have no misconceptions;
- With younger generations being appropriately experienced, they can add value and potentially new innovations to the business to continue to build it for the future.

Building a successful family business that can endure through generations requires effective management and governance to ensure that the vision of the family and the business are aligned, and that future generations are personally invested in the success of both. If the correct governance is not in place, the transition of the business and the family wealth to the next or future generations may be inefficient and tainted by family issues. Putting in place the correct governance in the first generation can lessen these issues and ensure that the family builds a reputable and successful legacy into the future.

Cooper Partners Financial Services can assist you in your asset succession and estate planning. If you would like to discuss these issues in more detail, please contact one of our dedicated specialists on (08) 6311 6900.

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