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Family business – the Ten Commandments

In my thirty-odd years of accounting practice, I have lost count of the number of times people have said to me, ‘My son hasn’t got the skills to carry on the family business.’ Others grumble, ‘My children are irresponsible with money – they wouldn’t know how to run a business seriously.’ Or, ‘I’m worried that my kids will sell up as soon as I’m gone.’

It’s important to remember that a family business – and its assets and wealth – should be the glue that holds the family together and the fuel that propels it towards happiness and success. However, if succession planning is not managed properly, it can become the catalyst for blowing the family apart.

Australian family businesses generate around 50 per cent of GDP and employ almost 50 per cent of the Australian work force.

Given the potential catastrophic consequences, it is frightening how little attention is paid to succession planning by family and business leaders. A recent PricewaterhouseCoopers survey concluded that only

40 per cent of family businesses make it to the second generation, only 11 per cent continue to the third generation and a mere six per cent continue into the fourth generation and beyond.

Clearly, families cannot just leave it to chance to sort things out. If they wish to enjoy peace and prosperity over the long term, they must take positive steps to establish formal strategies and structures that manage individual needs and interests, and facilitate interactions between the individuals, the family and the business. This is why it’s critical families have rules to live by in running their businesses. I call these the ‘Ten Commandments of Family Business’.

1 Increase wealth

The number of family members grows much faster than the family’s wealth. A family business therefore must do more than just maintain its wealth – it needs to follow the first commandment: ‘It is beholden on the

family business to increase wealth.’ Ideally, wealth should grow exponentially as family members increase. Failure to observe this commandment may result in a family’s financial demise.

2 Structure

The family business must also produce income and plan for the future. If the business is to continue long term, it is important that subsequent generations are encouraged

and educated into the business, and structures are put in place to facilitate this process. Thus the second commandment. ‘Thou shall establish structures.’

3 Be objective, not subjective

Families are an amalgam of power, love, money, jealousy, pride and a host of other emotions. Each family business must develop its own objective systems and structures to ensure that these emotions are not imported into

the business. Hence the third commandment: ‘Make business decisions for commercial reasons and not for family reasons.’ This is especially the case when it comes to employing family members.

4 Employ family carefully

Family members employed in the business need to feel that they have earned their position. Also, family members not employed in the business have a right to know that the family assets have not been squandered on

'jobs for the boys'. Nepotism is an unhealthy message for all concerned. So the fourth commandment is: 'Establish an objective job selection and employee policy.'

5 Plan

All business involves risk. But if you run a business in a professional manner, you minimise the risk. Therefore, the all-important fifth commandment: 'Create a business

plan.' Do so after careful consideration, and build in a process to review and monitor this plan on a regular basis.

6 Use independent directors

Families do not have a monopoly on knowledge, so the sixth commandment is: 'Appoint arms-length and independent managers and directors.' They not only contribute to the ongoing activities of the business

but also add objectivity and commercial reality to the decision-making process. Many family businesses rely on senior family members to make decisions. Independent directors can help break this addiction.

7 Don't pressure that independence

It is critical for family members to avoid putting unwarranted pressure on independent directors. Over-involvement by the family can result in the 'tail wagging the dog'. Instead of the board making decisions, family members do so, to the detriment of the board's abilities

to carry out its business in a professional and effective manner. The seventh commandment is therefore: 'Respect your independent directors and do not coerce them.'

8 Succession planning

The eighth commandment is critical to the longer term: 'Create a succession plan.' The absence of a constructive

succession plan has the potential to destroy the business and cause major disruption within the family.

9 Transparency

This is also critical, to ensure that all relevant decisions are made openly and communicated to the entire family. The ninth commandment therefore is: 'Have regular family retreats.' A retreat should run for one or

two days and preferably, all generations of the family should attend. It should encourage family members to table their aspirations, discuss their differences, develop policies and review all relevant matters.

10 The family constitution

Finally, the tenth commandment of family business: 'Write a family constitution.' All family members (say thirteen years and over) should sign the constitution. The document should include the business objectives, the terms of employment for directors, managers and

family employees, an outline of the board's decision-making process, and the way the business is managed. It should also set out clearly the shareholders' rights and obligations.

See also *Helping a family business grow and flourish*, and *Estate planning, keeping it in the family*.

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