

The challenges of running a family business

While it is widely acknowledged that family businesses have unique strengths, running a family business also presents unique challenges. These challenges may not be apparent when the business is at an early stage but are likely to become obvious as it starts to grow. Overcoming these challenges will be key to the success of the business, by allowing key family members to remain focused on the business itself.

What's your aim?

The starting point for any decision related to growing the business will be to make space to think about what you want from the business. For example:

- what are your long term objectives? When would you like to retire? What income do you need on retirement? Do you need to make provision for dependants?
- are you comfortable with steady, organic growth or are you aiming for rapid growth (if so, do you need external funding)?
- does your business reflect particular values which you want to preserve?
- do you aspire to pass on the business to your children? Would you consider selling all or part of the business (if so, in what timeframe)?

It's important to consider these issues carefully and to keep them under review to ensure that you are aiming for the right outcome. Answering these and similar questions will make other decisions easier, such as how to preserve ownership of the business, who should be working in the business and your attitude to risk.



Organising a growing business

A challenge facing any growing family businesses is to adopt a system of governance appropriate to the size and character of the business. It is often hard for founders/owners to relinquish control, but as the business grows the system of management needs to change for a number of reasons including:

- allowing the founders/owners to step back and think strategically
- identifying gaps where additional management expertise is needed
- ensuring business continuity in the event that a key family member is unexpectedly unable to fulfil that role

- making the business more open and equal for non-family management
- reducing stress levels for family managers by making it clear that business decisions are taken on a business and not a personal basis.

Non-family members

A key development stage for any family business will be the recruitment of external (non-family) managers or directors. While this can add greatly to the management of the business it can raise difficult questions such as how to recruit the right person, and how to reward and retain them (eg should non-family members be given equity in the business?). Appointing an external director is something that many family businesses resist for reasons of cost, confidentiality and culture. However the right non-executive director can bring new perspective, contacts and ideas. In addition it can be invaluable for family members to have a trusted and impartial outsider who is not party to family issues. Identifying the right person is essential but for those who make the right connection, the benefits can be huge.

Governance of the business

Family businesses face a unique challenge of needing to balance the needs of the business with the needs of the family. A large number of family businesses ultimately either fail or cease to continue in family control because of the tensions which can arise. In particular, by the time the business reaches the second or third generation there will

often be a disparity of interests, lack of agreement about strategy and possibly misunderstanding amongst some family members.

The key to avoiding this is communication, ensuring in particular that family members understand how and why decisions are made and what part they play in the process. For a first generation business this may be a case of setting out what has been agreed in a shareholders agreement which ensures that shareholders are properly represented. The agreement may also set out when shares can be transferred and possibly establish the need for unanimous agreement on certain fundamental decisions.

For second, or third generation businesses it is often useful to have a document which sets out the aims and ethos of the business, and the extent of control which will be given to those members of the family who choose not to work in the business but remain as shareholders. It will also be important to establish structures for keeping members of the family who are not directly involved in the business informed of what is happening.

First steps

The challenges faced by a family business can appear daunting but many of them are predictable and can easily be managed if the issues are addressed in good time. The key is to get started.

Burges Salmon have advised family businesses of all sizes on a range of issues including shareholder arrangements, restructuring for growth and tax efficiency, succession planning and employee incentive plans.

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