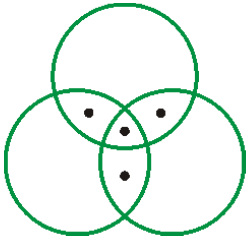
Opportunities and Challenges of Family Businesses and Wealth



27 August 2026

I never planned to fail; I just failed to plan.

Business and Wealth

Family Businesses and Wealth have existed for centuries!

Family businesses today are:

- Professionally managed
- Widely held as generations participate.
- Tax consideration - different nationalities/ tax residences
- More international?
- Listed?
- Greater competitive pressures
- Mergers and consolidations?
- Social Media influences
- Technology and AI
- Trade wars!!!
- Wealth is managed by Family Offices

A common challenge all over the world

- Shirtsleeves to shirtsleeves in three generations (USA)
- Peasant shoes to peasant shoes in three generations (China)
- Father-merchant, son-playboy, grandson-beggar (Mexico)
- 1st generation creates, 2nd generation inherits, 3rd destroys (Germany)
- From the stable to the stars and back again (Italy)
- From clogs to clogs in 3 generations (UK)
- Barefoot to barefoot in 3 generation (Africa)

The Family Business

- Introduction to the Family Business
- Challenges faced by the Family Business
- Opportunities through professionalisation
- Family strategic planning
- Business planning
- Wealth stabilisation
  - Succession
  - Ownership
  - Asset protection and growth

The Family Business

Source: Who? Me? ;The Family Business Consulting Group (2007)

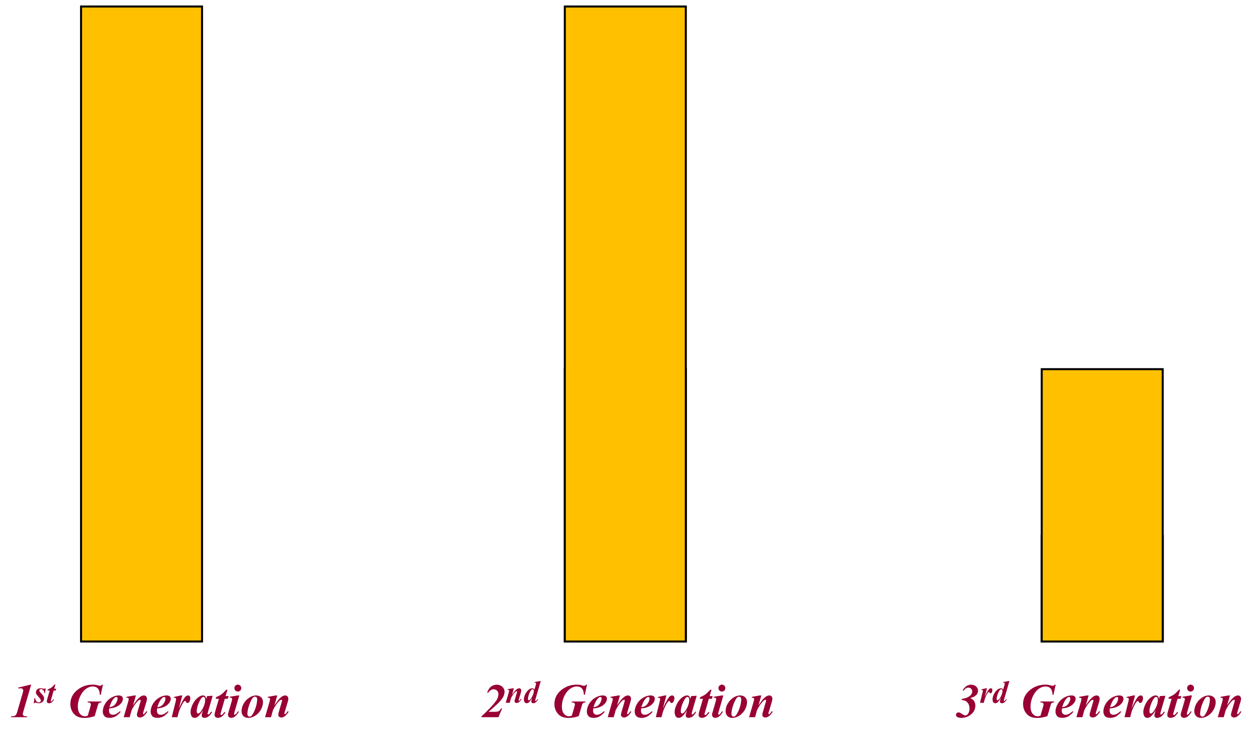
What is a Family Business?

"One which is influenced by a family or by family relationships"

- 50% or more of share ownership by family
- Management control retained by family members
- Relationships between family members have an important impact on the business & wealth

Family Businesses

80% to 90% of business enterprises are family owned



Family Businesses are a major portion of the economy!

BERTELSMANN

MARS

PORSCHE

GAP

Ford

MITTAL

L'ORÉAL

Roche

BMW

Walmart

Reliance

GROUPE DASSAULT

MICHELIN

TATA

PEUGEOT

Heineken

Tetra Pak

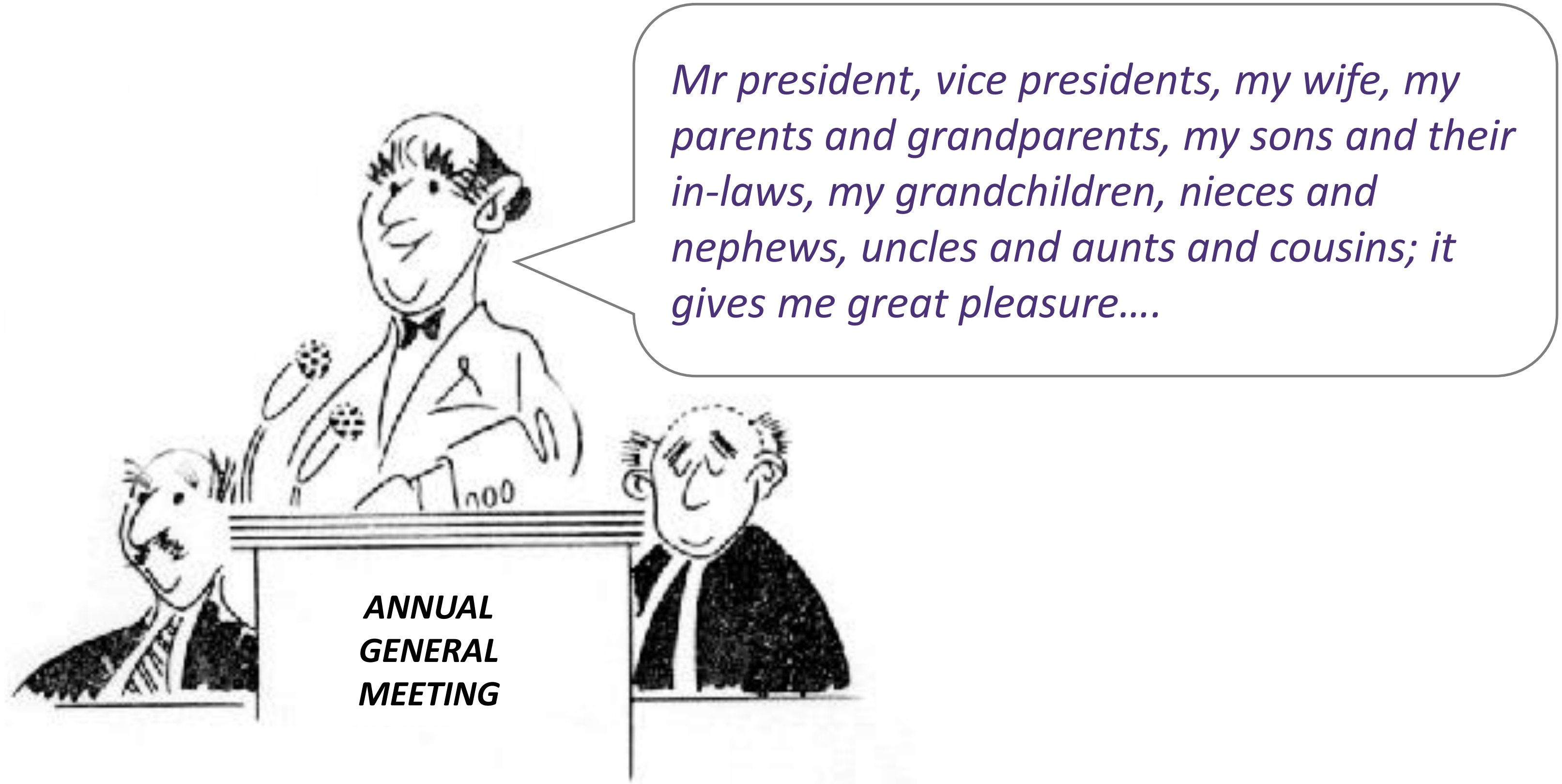
What causes 7 of 10 to fail?

- The **single most significant factor** is not planning for succession
  - Founder/dominant individual not recognising the need
  - Not wanting to delegate
  - Not preparing the next generation to take responsibility
- Emotional conflict and inability to address that
- Lack of alignment between stakeholders on the purpose of the business
- Weak governance
- Lack of trust
- Poor communication between family

Characteristics of the Family Business

- Significant control held by the founders
- Strong overlap between family and business
- Importance of family relationships
- Emotions
- Biases and misconceptions
- All family members are **stakeholders**, even if not **shareholders**
- Generational and ego issues
- Entrepreneurial attitude
- Weak governance

The Family Business



The family business is so much more than just a business. It's a stew of family relationships, based on love and resentment.

Strengths

- Sense of belonging
- Commitment
- Flexibility with work, time and money
- Long-term approach
- Stable culture
- Flat management structure
  - Prompt decisions
- Pride and trust
- Can bond the family

Challenges

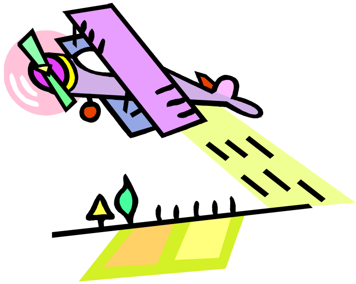
- Objectives often unclear
- Commonality of goals
- Fear of change
- Outdated skills
- Poor governance
- Raising capital
- Planning for and managing succession
- Generational perspectives

Challenges

- Emotional issues
- Biases – detracting from sound decisions
- Nepotism
- Leadership and legitimacy
- Lack of planning and structure
- Communication
- Assumptions and presumptions
- Reluctance to delegate power

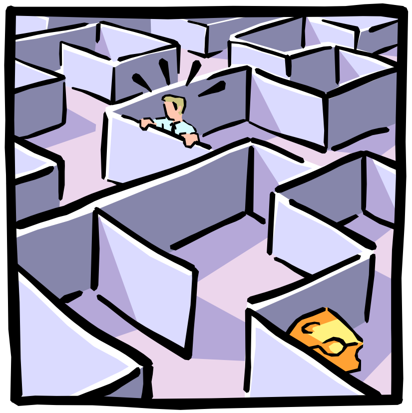
Reasons for keeping the Family Business

- Effective way of protecting the family's wealth
- Promoting long-term security
- Opportunities for family members
- Without it, family bonds may be weakened
- Business seen as guardian of family values
- The Family Business is a monument to the family and founders

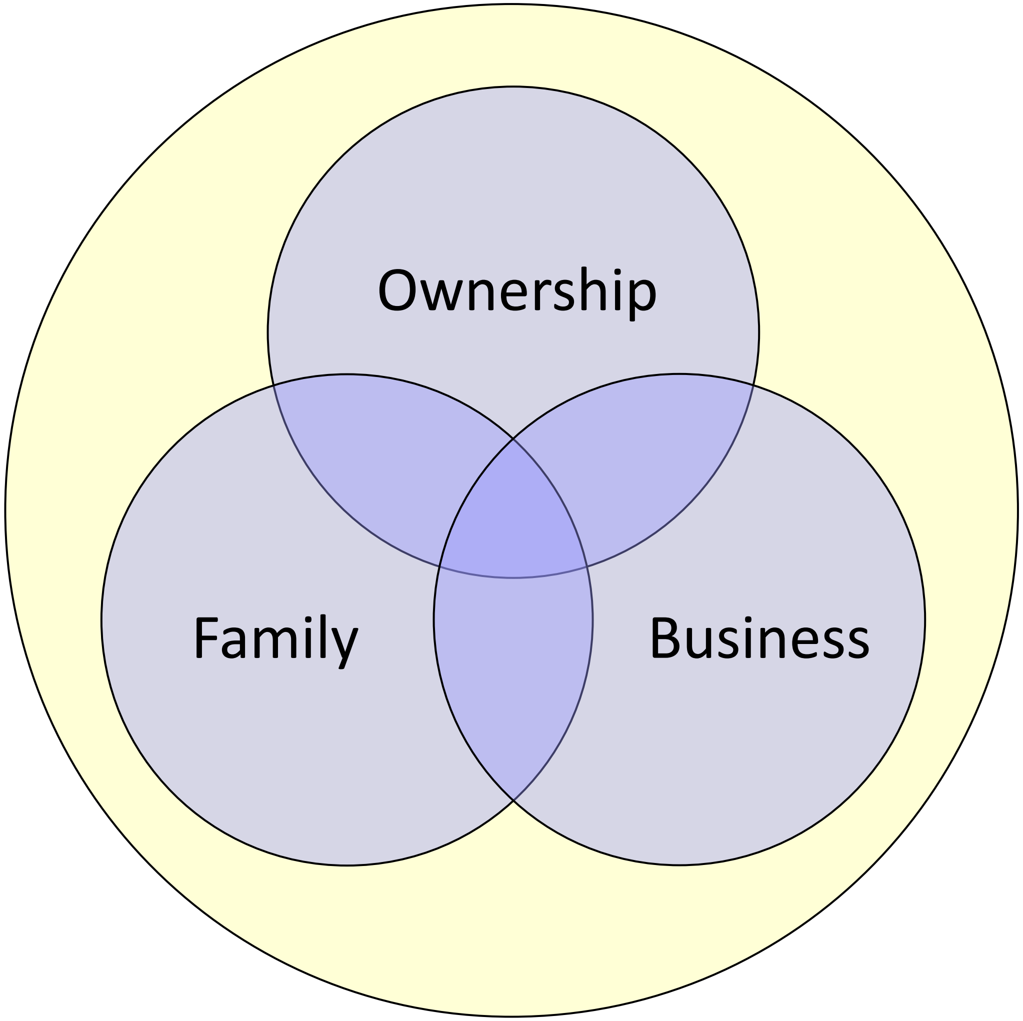


Challenges to achieving commonality

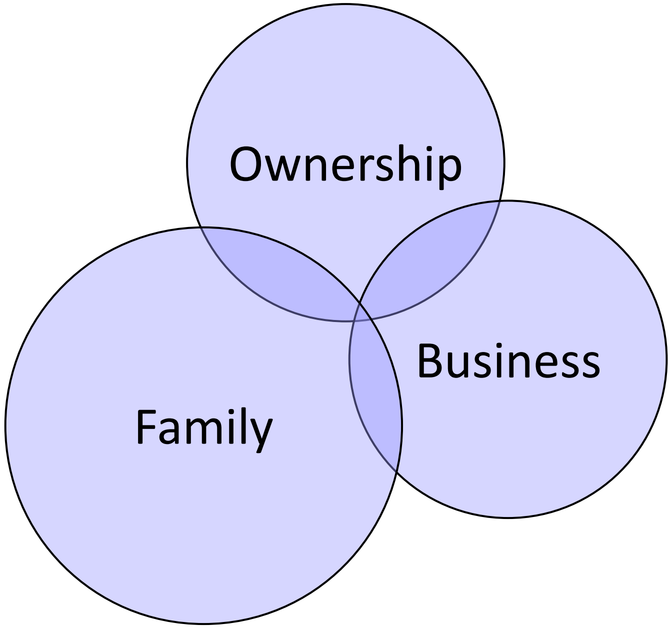
- Conflicts
- Accountability
- Management of Human Resources
- Power and control
- Generational issues – differing values and expectations
- Professionalisation
- Managing succession
- Ownership issues
- Wealth – growth and protection



The Family Business – Overlaps

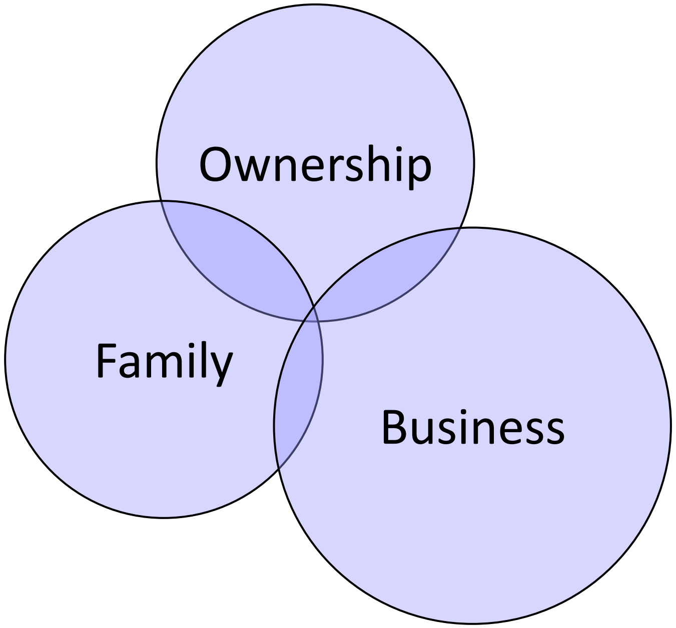


Family First?



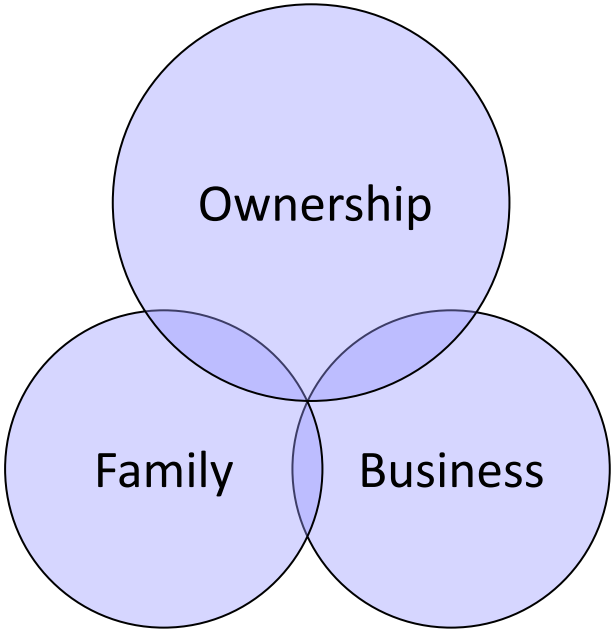
- ***A bias towards the family:***
  - Unhappy people in unsuitable jobs
  - Shareholders feel undervalued
  - Sense of entitlement
  - Low self-worth and esteem
  - Perks to balance ‘sweat equity’ to those who really put in the effort
  - Human resource issues – double standards

Business First?



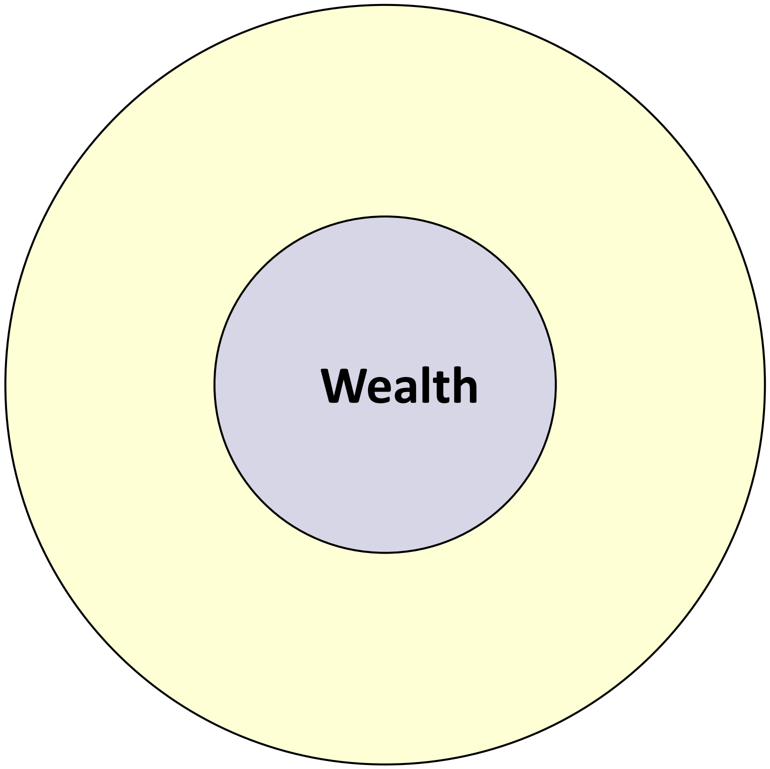
- ***A bias towards business:***
  - The business is a hungry baby – time and money
  - Family feel undervalued
  - Business looses out on family's commitment and patient capital

Owners First?



- ***A bias towards the owners:***
  - Tendency to drain the business of resources
  - Board of directors is ineffective
  - Poor governance
  - Insufficient reinvestment
  - Eventual demise of the business

The Family Wealth



The Family Office

Risk appetite, Portfolio mix and spread

Returns, Governance

Conflicts

Conflicts

Family System	Business System
Emotion based	Task based
Sub-conscious	Conscious
Inward-looking	Outward-looking
Minimising change	Exploiting change

Parent/child rivalry

Sibling rivalry

Cousins' rivalry

Family first or business?

Lack of communication

Accountability

- A business has grown from a one-man affair, and relations have joined haphazardly
- No single individual is accountable for a specific job
- Key questions are easily avoided as a result

The Mythical Belief

"Everything will sort itself out!"

Human Resources…

Family Values

Recruitment
Provide opportunity for relatives in need

Remuneration
Based on family development needs

Appraisal
Do not differentiate between siblings

Business Values

Recruitment
Hire based only on competence

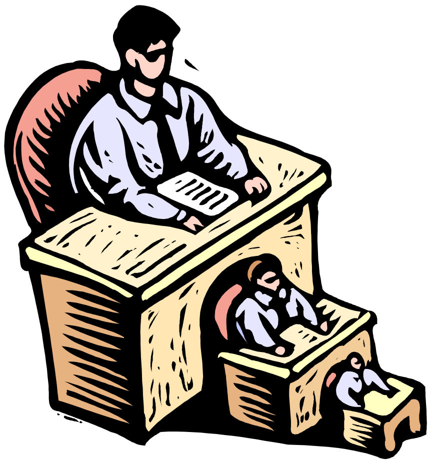
Remuneration
Based on market worth and performance history

Appraisal
Performance based

CONFLICT

…Human Resources

- Unconditional help provided to family members
- Positions reserved for family members, irrespective of ability
- Right to join the company
- Joined under feeling of obligation
- Generational loyalties
- Equal remuneration for family members
- Remuneration not comparable with market rates
- Few clearly defined responsibilities
- Blurred reporting lines
- Little room for promotion and development
- Training not a priority



…Human Resources

Source: Who? Me? ;The Family Business Consulting Group (2007)

Power and Control…

- ‘I am the company; The company is me’
- Reluctance to delegate responsibility
- Reluctance to decentralise decision-making
- Fear of the loss of control. importance and identity
- Consequently, secrecy regarding information and plans
- Time wasted in routine, mundane tasks
- Often leads to bad management practices
- Frequently the cause of stress and poor health, which in turn affects the family and the business

Professionalising the Family Business

- Inculcating family values into the business
- Set out separate objectives for family and for the business and wealth
- Family Strategic Plan
- Business Strategic Plan
- Wealth management Plan
- Effective Board of Directors
- Managing succession and relinquishing control
- Clarity of ownership
- Implementing robust Governance structures for Family and Business and Wealth

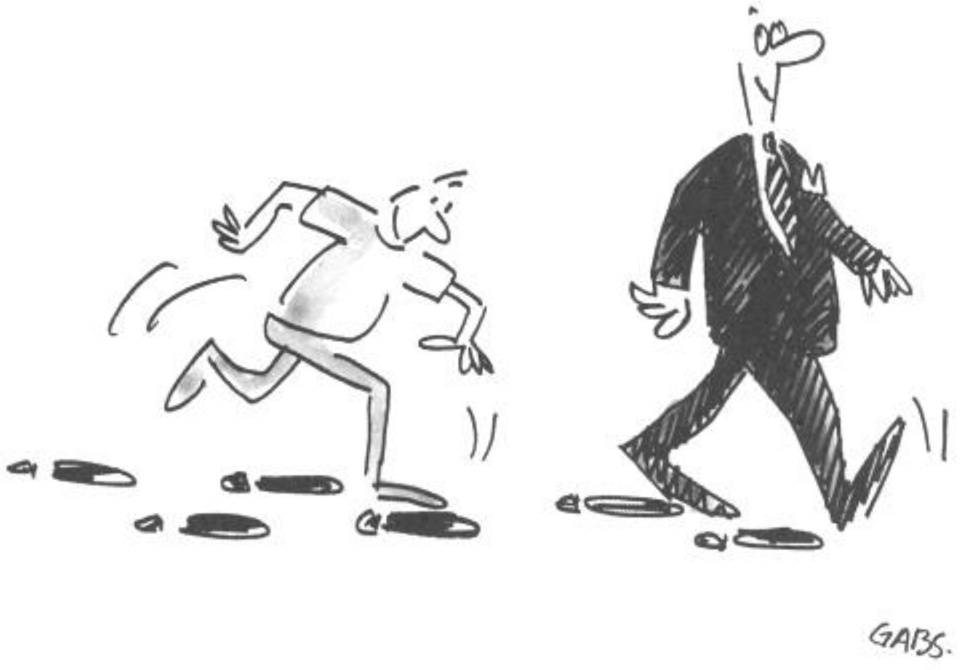
Professionalising the Family Business

- Product – Process - Planning driven
- Professional approach but retain entrepreneurial flair:
  - Planning
  - Innovation
  - Leadership
  - Structure
  - Control
  - Culture

The Successful Family Business

- Clear vision
- Commonality of goals
- Sense of purpose
- Coherent set of values
- Trust between parents and children
- Teamwork & strong interpersonal skills
- Effective communication
- Strong boards & governance
- Caring for employees
- Caring for the community

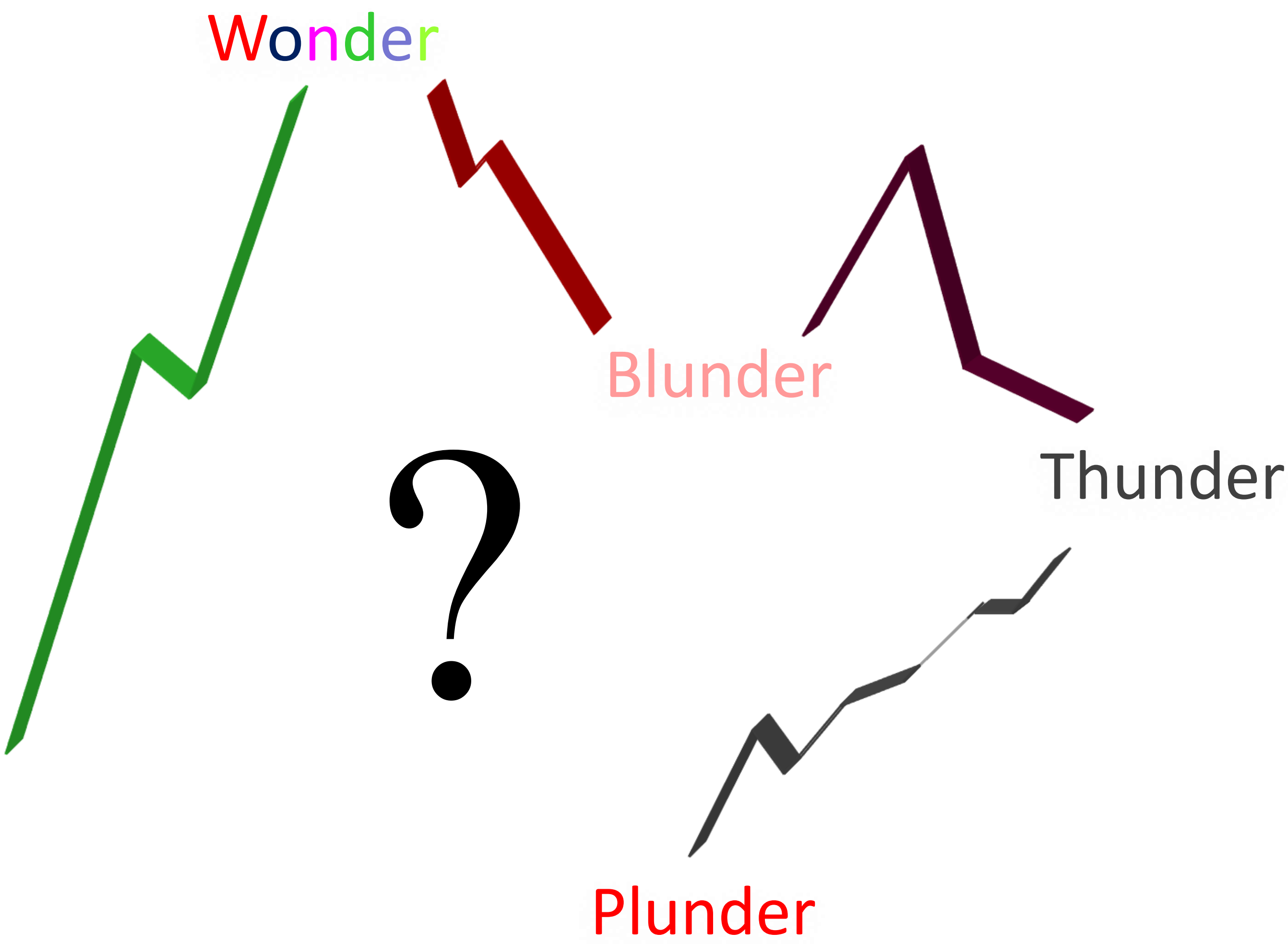
The Successful Family Business?



Source: Who? Me? ;The Family Business Consulting Group (2007)

Business Evolution

A light-hearted model



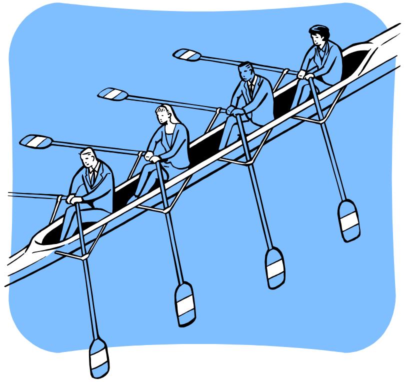
And now the pause !!!

The occasional or even a regular cup of coffee with stakeholders yields valuable information on challenges and new opportunities!!
The beans can also tell a story.

Make the time

Strategic Issues

- Aligning Business goals and Family goals
- Developing Business plans and Family plans



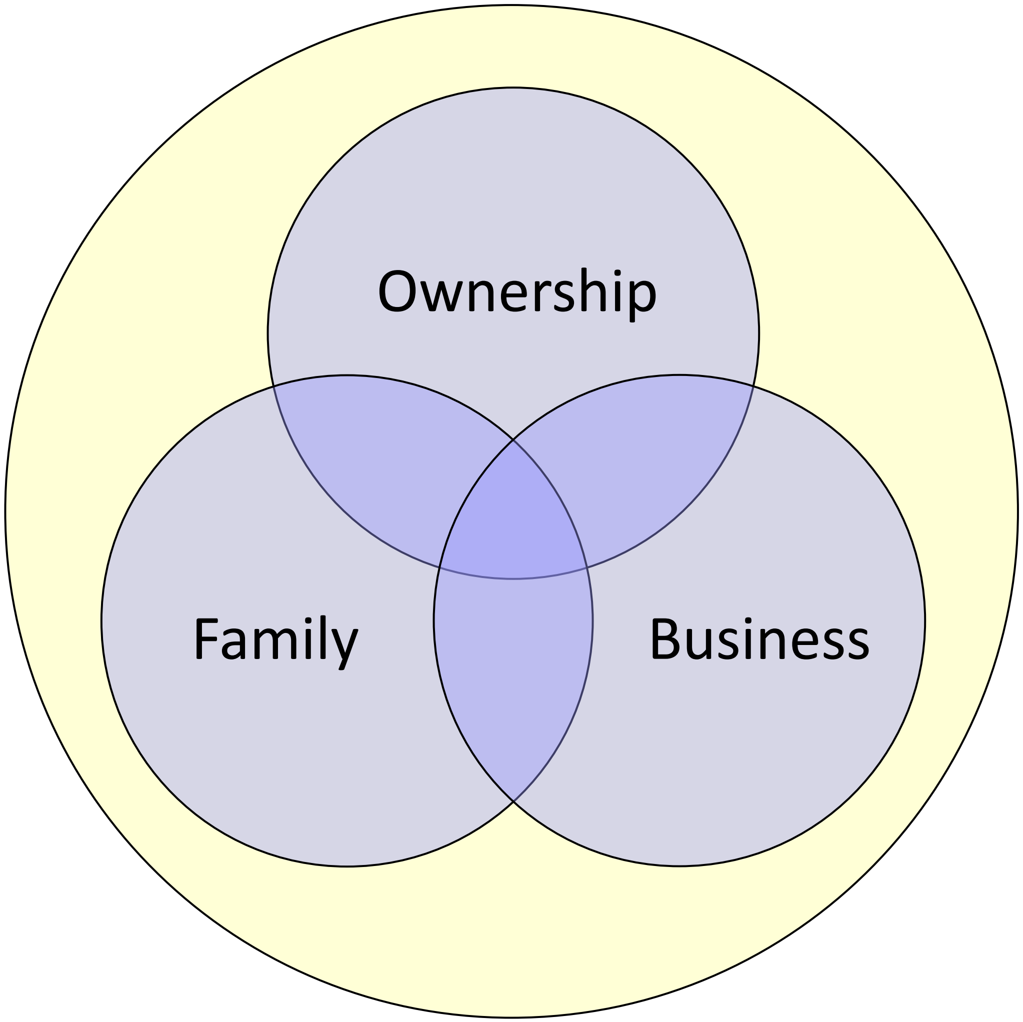
Family Business Trust

Balance Sheet

Assets	Liabilities
Addressing conflict	Ignoring Conflict
Shared vision	Individual goals
Fair decision-making	Unilateral decisions
Planning	Reaction
Governance structure	Family politics
Family agreements	Individual deals
Institutional Trust	Lack of Trust

Commonality of Goals

The Family Business – Overlaps



Family

- Family Values
- Family Constitution
- Family Council
- Communication

The Family Code

Guidelines that define:

- Family Values
- The composition of the family
- The objectives of the family
- Expectations – family vs. Individual
- Policy on family expenses
- Basis of employment of family members
- Ownership rules including entry/exit
- Procedures for resolving conflict

The Family Council

- ***Responsibilities would include:***
  - Development of Family Code/Constitution
  - Fostering sound relationship
  - Sounding board
  - Providing forum for conflict resolution
    - Maintaining strict confidentiality
  - Maintenance of registry and archives
- ***Would consist of:***
  - Senior family members
  - Younger generation members
  - Trusted advisors

Communication – The Common Issues

- Tendency to keep issues bottled up
- Undercurrents in relationships not addressed
- Lack of trust
- Need for more openness
- Communication takes place at a superficial level
- Poor listening
- Assumptions and presumptions
- Generational expectations
- Family does not meet often as a group

To Improve Communication

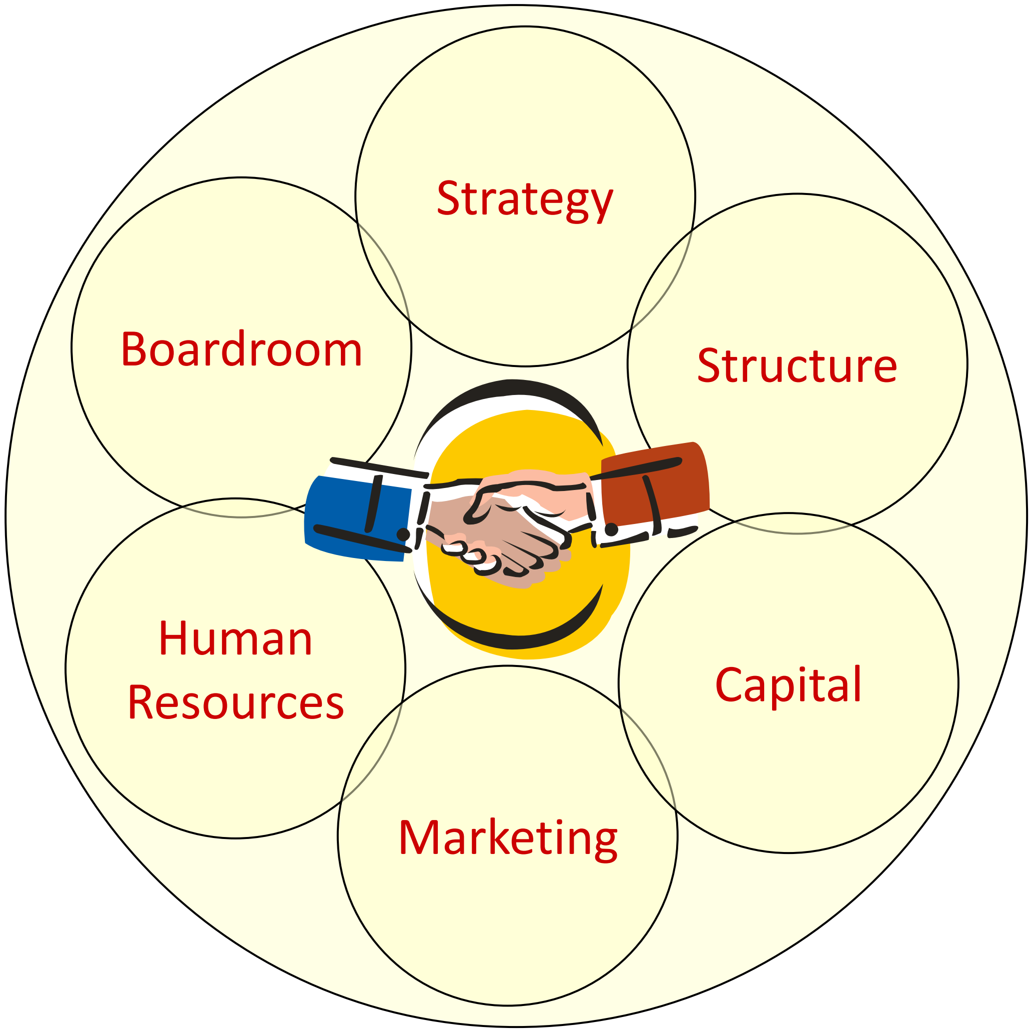
- **Retreats**
  - Develop bonds and communication channels
  - Promote family goals
  - Participation by all
- **Regular meetings**
  - Family issues
  - Business updates
  - Open and fair communication
- **Development plans**
  - For all family members
  - Succession in the family and the business
  - Identify individual needs and how these can be met

Business

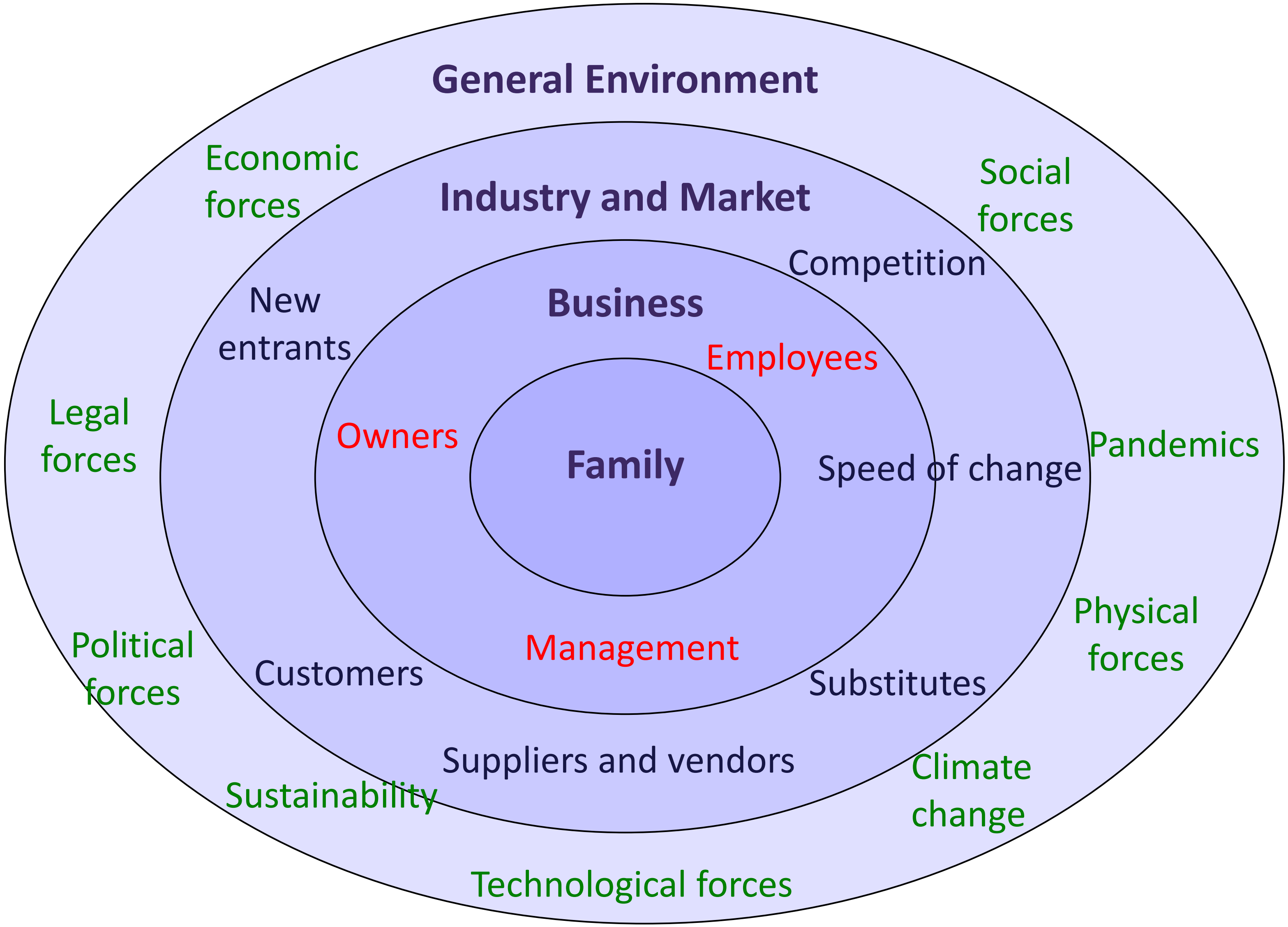
- Business Planning
- Governance
- Boards
- Flow of Funds
- Succession

The Strategic Business Plan

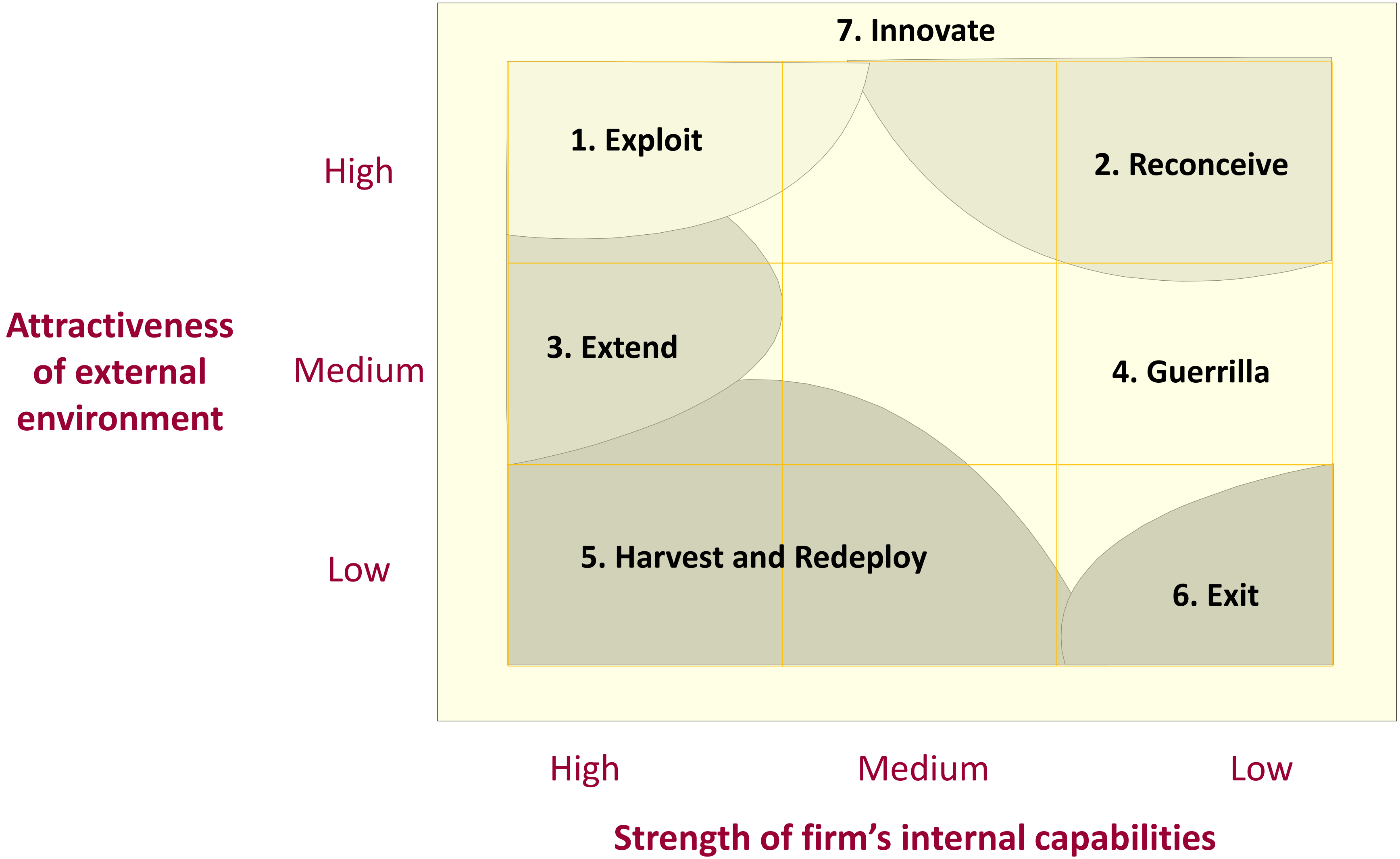
Integration of all parts of the organisation



The External Environment



Selecting the Strategic Direction



External Directors to the Board

- The best family businesses worldwide operate with strong, independent boards
- Importance of non-family members as non-executive directors:
  - Act as catalysts and provide guidance
  - Outside perspective (without emotions)
  - Act as sounding board
  - Networking
  - Assist in major corporate decisions (disposals, acquisitions)
  - Objectivity in monitoring effectiveness of management
  - Play a key role in managing succession

Effective Boards

Governance

- Roles and responsibilities of executive and non-executive directors
- Contracts of employment
- Distinguishing between perks, benefits, dividends and family ‘gifts’
- Limits of Authority
- Risk assessment processes and mitigation measures
- Reporting and communication to shareholders

The flow of funds in the Family Business…

Role Confusion

Gifts

Bequests

Salary/Wages

Benefits

Perks

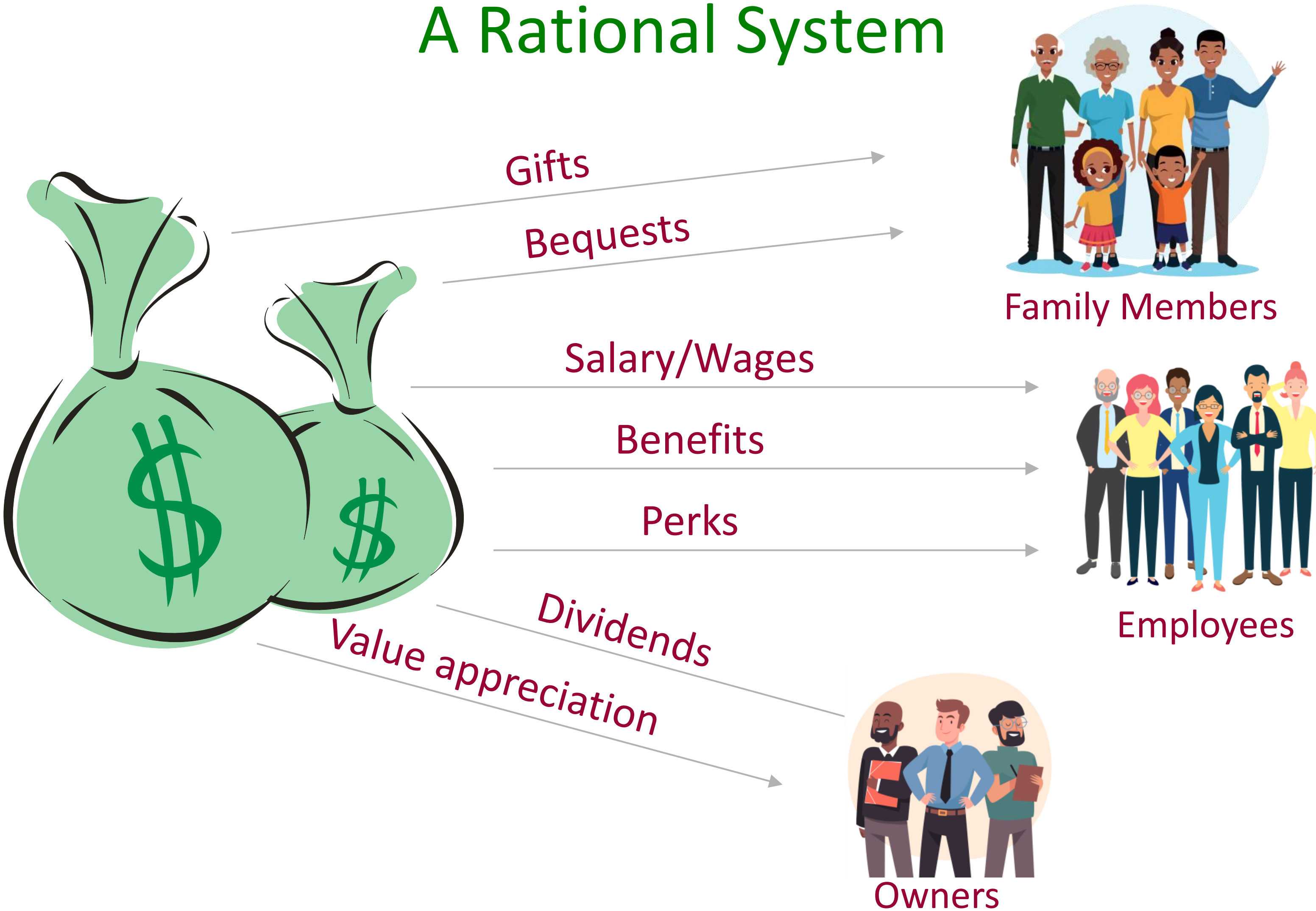
Dividends

Value appreciation

Family Members

…The flow of funds in the Family Business

A Rational System



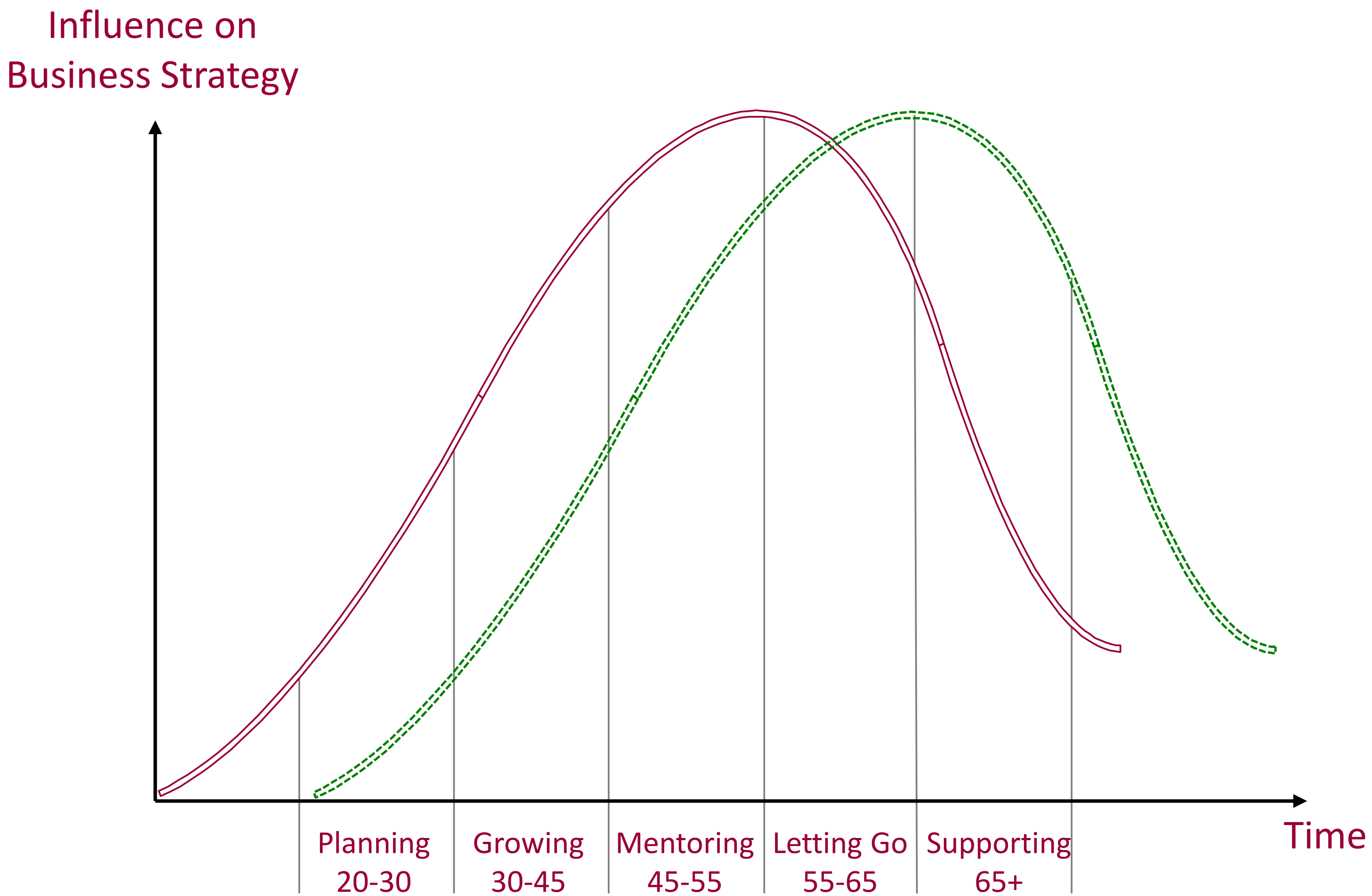
Wealth Stabilisation

Succession Planning

Resistance by the founders to plan succession because of:

- Fear of death
- Reluctance to let go of power and control
- Loss of identity
- Inability to choose among children
- Fear of what to do in retirement
- Jealousy and rivalry

Individual Life Cycle



Succession Planning

Source: Who? Me? ;The Family Business Consulting Group (2007)

Succession Planning

Issues from younger generation:

- Lifestyle
- Comfort zones
- Perception of developing world
- Security
- Fear of being overshadowed by parents
- Sibling relationships
- Role clarity
- Remuneration policies


Willingness
Policies
Values, Alignment
Commonality
Responsibility
Trust
Generational differences
Communication Engagement
Generational loyalties
Governance
Personal financial security
Emotions
Blind spots

Managing Succession

- Well structured approach for all levels of management
- Start planning early
- Welcome children if they wish to join
  - External work experience
- Otherwise accept and support their choice of career
- Establish criteria and process
- Choose successors, then train them to take over responsibility
- Communicate!
- Target your retirement date

Managing Succession?

Source: Who? Me? ;The Family Business Consulting Group (2007)

Relinquishing Control

- Build personal financial security
- Prepare to sell the family business if necessary
- Accept loss of control
- Planned retirement – something to look forward to
- Clearly defined ownership and management control, once position has been relinquished

No obvious successors

What can be the options

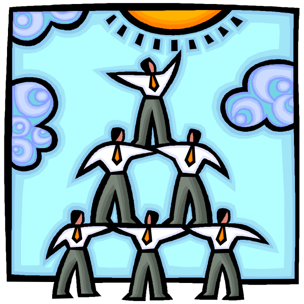
- Non-family management
  - Robust governance and reporting and controls
  - Management participation in equity
  - Performance measures
- Mergers and consolidations?
  - Robust governance and reporting and controls
  - Shareholder Agreements
  - Private equity investment *(funding, liquidity event,….)*
- Sell
  - On a rising curve or on the down slide?

Ownership

- Current
- Devolution
- Shareholders' Agreement
- Wills

Ownership Issues

- Holding by family
  - Beneficial?
  - Held in Trust for generations?
- How to distribute within the family?
- How is the ownership to change after the founders leave?
  - Spouses (divorce, remarriage, ...)
  - Children – incremental generations
  - Sons & daughters
- Ownership versus management



Beneficial Ownership

Possible ownership configurations

Entrepreneurship
Owner managed

Family partnership

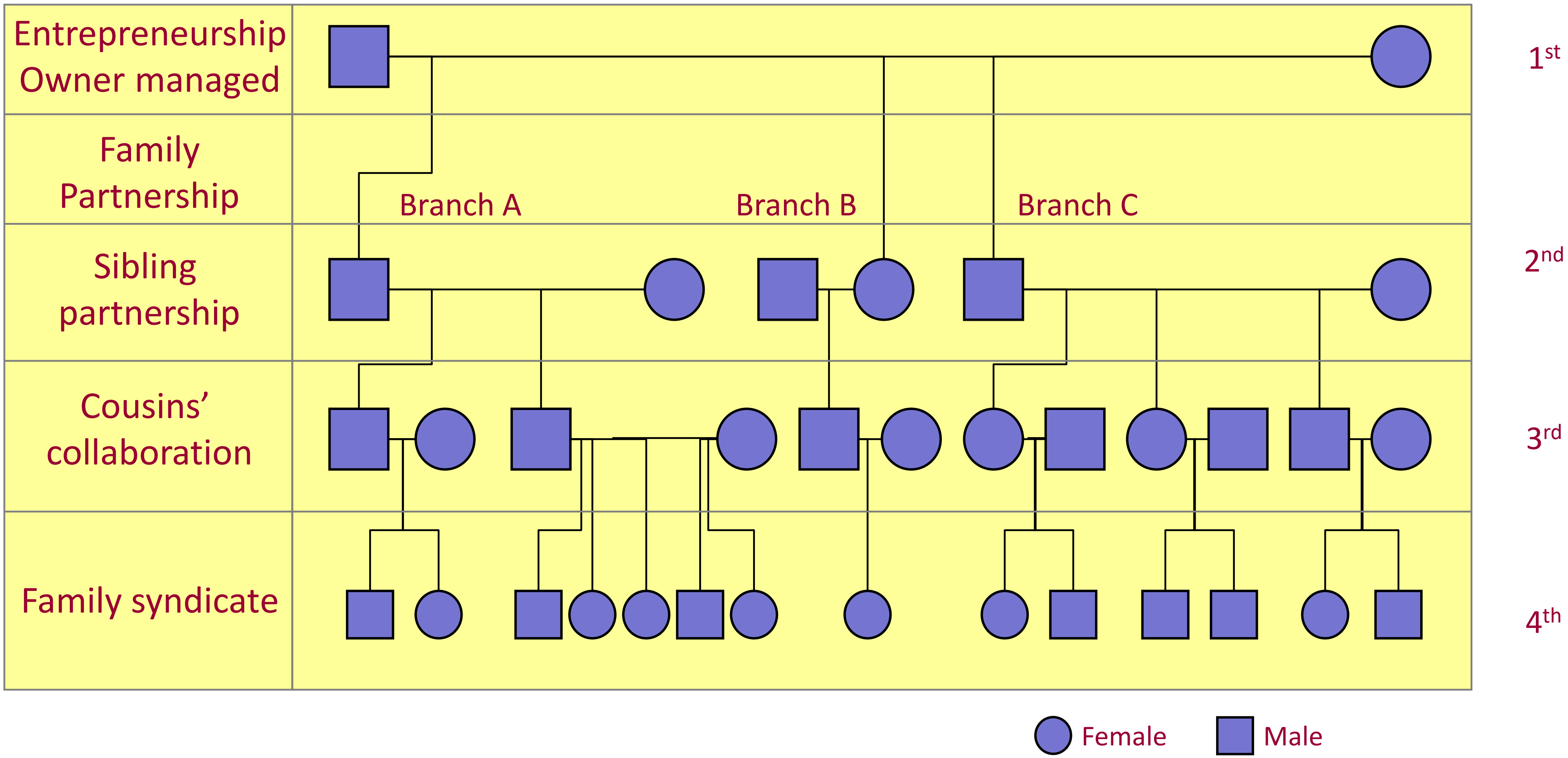
Sibling partnership

Cousins' collaboration

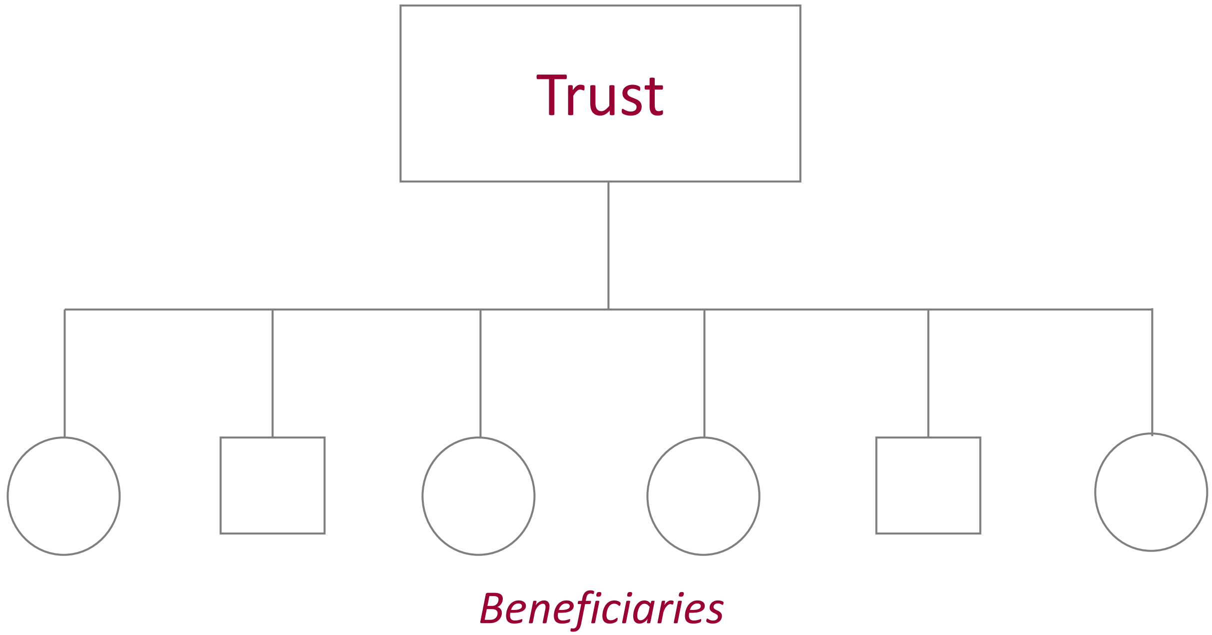
Family syndicate

Beneficial Ownership

Fourth generation genogram with possible ownership configurations



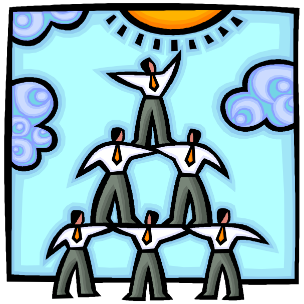
Ownership in Trust



Variety of Options
And now
Tax efficiency in Kenya

Sibling/ Cousins Partnership
Key features

- Alignment on vision
- Strong governance structures
- Greater levels of Transparency, Reporting & Accountability
- Sound returns on investment
- Strong dividend policy
- Clarity on exit mechanisms



Each succession is different (and full of uncertainties)

Single owner

Sibling partnership

Cousin consortium

Source: Christine Blondel, INSEAD, Adapted from Gersick et al

Shareholder Agreements

- Define the relationship in more detail that the Memorandum and Articles
- How board and management will be appointed
- Limits of Authority
- Remuneration policies for working directors
- How is the business to be valued if any shareholder wants out
  - *Payment terms etc.*
- How will disputes be resolved
- Deadlocks

Protection of Assets

- Authorities
- Community pressures
- Customary laws
- Family
  - *All family members provided for*
  - *Family members do not squander wealth*
  - *Do not leave problems for the spouse*
    - *Assets, liabilities and emotional challenges!*
  - *Opportunity to grow the assets*

Protecting and expanding the assets…

Wealth management plan

- Wills
- Trusts
- Insurance – life, medical, etc.
- Family Office to manage wealth
- Assessing the tax implications
- Appoint trustees, professional advisers etc., to ensure assets are not squandered
- Implementation plan

Protecting and expanding the assets

Wealth management plan

- Differentiate assets
  - Core
  - Trading
  - Speculative

- Professional advice

Protecting and expanding the assets

Wealth management plan

- Governance around wealth
  - Review from Investors perspective
  - Establish risk appetite
  - Portfolio mix and spread (cash, property, stocks, etc)
  - Target returns Portfolio management
  - Risk versus reward
  - Tax considerations
  - Income requirements
  - Liquidity

Typical future scenarios

As far as **<u>Family Unity</u>** is concerned, this generally depends on how the business does, unless there has been work done to build a robust family structure

<u>Business Scenarios</u>

Status Quo

Anarchy

Splitting the businesses

Professionalise

Status Quo

Business continues to be managed as "usual"

↓

Boards remains ineffective

↓

Out of respect for senior directors, position sustains for some time

↓

Shareholder values not maximised – 'comfort zones'

↓

?

Anarchy

Each business unit is managed by individuals – who will do their "own thing" and pay out what they deem fair to shareholders

↓

Frustrations among working and non-working shareholders

↓

Disputes / Breakup

Splitting the businesses

Family members buy out units they can run

Valuations

Payouts

Disputes?

May preserve family ties through family events

Portray a united front as a family?

Assistance in times of difficulty?

Professionalise

Make Board effective and a ‘group’ operating vehicle

↓

Strengthen management at operating units

- Effective committees
- Effective participation

↓

Accountability and responsibility to Board and Shareholders

- Corporate governance

↓

Succession

Summary

To survive and thrive in an increasingly competitive and global market, family businesses need to:

- Recognise that Succession is a <u>process</u> that needs to be planned
- Engage effectively between generations
- Distinguish between Family, Business and Wealth
- Professionalise and develop good Family, Business and Wealth governance
- Enhance strategic planning
- Clarify ownership issues
- Protect and grow the assets
- Involve outsiders to provide balance and broaden perspective

Thank you

I never planned to fail; I just failed to plan.