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MoneyTalk

Mixing Family & Business

GENERATION GAPS

Disputes between the different generations of family members can threaten the survival of a successful family business. These can occur in the handover from the founder to the inheritors of the business where there has been little or no communication between family members.

Some people say that "blood is thicker than water" and therefore "formal" structures are not necessary in family businesses. Unfortunately, family conflicts are fairly prevalent and do lie at the heart of the relatively high failure rate of small businesses.

If these conflicts are not resolved and the family is unable to agree on the strategic direction of the business, then the family firm will probably fail.

Because of these problems, it is necessary that the families and family business agree on a formal structure so that issues which arise within the business are discussed and resolved without dispute threatening the business.

The problems cannot be left unresolved as this will cause problems in the business and in the family

MAJOR CRISIS POINTS IN A FAMILY BUSINESS

- * Marriage breakups - especially where there is no prenuptial agreement or other similar agreement to ensure a smooth transition within the business.
- * Death or permanent disablement of a principal member of the business.
- * Bankruptcy of a principal member of the business.
- * Retirement of a principal member of the business - without an effective succession plan.
- * Partnership / Shareholder disputes - especially where there are no dispute mechanisms in place to resolve such disputes.
- * Transferring control to the next generation - especially where there has been little or no planning.

COMMUNICATION

Familiarity among family members can mean that a lot is "assumed" and that very little is "spelled out". This highlights the necessity for establishing formal communication mechanisms within the family business, e.g.:

- * Regular Meetings
- * Family Retreats
- * Family Conferences to review the business performances

There is also a necessity for documents to be produced on such matters as:

- * The Business Plan
- * Succession Plan
- * Responsibility Chart
- * Estate Plan

SETTLING DISPUTES

Many family businesses have found that there are considerable benefits to be had by having outsiders or independent persons involved in the business. These persons could be professional advisors who are called upon to help settle family disputes.

Every family business should establish a "dispute mechanism" to resolve disputes. Part of that mechanism should be an agreement that the family matters will be resolved in accordance with the rules of the business and that resort will not be made to the courts.

Early planning, communication and discussion on all aspects of the operations of the business will contribute to the avoidance of major crisis and disputes in the family business.

The items to be considered include:

- * Recruitment of employees - both family members and non-family members
- * Employment descriptions
- * Regular appraisals of performance
- * Training
- * Outside business involvement
- * Professional development
- * Regular family meetings
- * Business Planning
- * Succession Planning
- * Review of salaries based on actual performance
- * Estate Planning
- * Sale of the business
- * Sale of the business to the next generation
- * Retirement funding for the current Directors / Owners / Key Persons in the business.

This article was extracted from Tax Breaks and other sources.

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