

PwC Alert

Keeping
the family
business alive

Generation to
generation,
not quarter to
quarter





The economic landscape in Malaysia is largely dominated by family related businesses, evident by the fact that about 70% of the listed companies in Bursa Malaysia are family related¹. Many of the largest conglomerates and companies in Malaysia today were started, developed and nurtured by individuals and family members who had drive, determination and an unyielding entrepreneurial spirit.

You may have heard that a successful family makes a successful business, but a successful business does not mean a successful family unit. History shows that families that are not successful find it hard to perpetuate successful businesses through the generations. The family business can be a resilient and successful business model, but it comes with its own set of challenges, unique from its corporate counterparts.

The founders have to recognise that it is vital for all family members to agree or at the very least, accept the overall vision for the family business and have clarity on the family's ongoing

commitment to the business. Many of today's Malaysian family businesses will need to manage generational change over the next decade. Hence, understanding and managing the dynamics of a family business is critical for its sustainability.

Just as we appreciate the unique qualities of family businesses, family owners too have to be prepared when faced with 'tipping points' i.e. moments in their firm's evolution where key decisions have to be made, and the future of the business is determined.

¹ Amran N. A. and Ahmad A. C., 2010. *Family Succession and Firm Performance among Malaysian Companies*, *International Journal of Business and Social Science*, Vol. 1 No. 2, November 2010

Family business dynamics can build the family firm - or break it

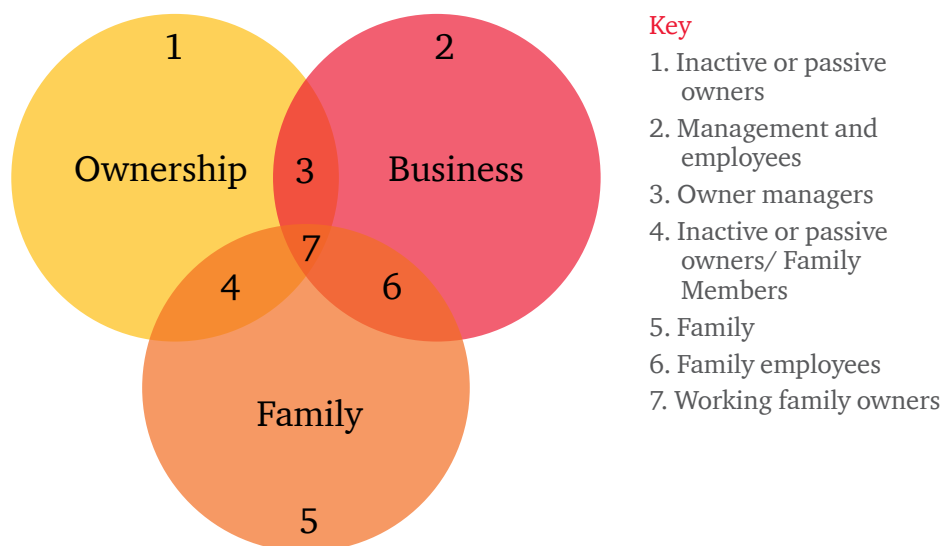
The very essence of the family business is that it has been passed from one generation to the next, but the moment of transition and the years leading up to it can make or break the business' future success. The majority of family businesses do not extend beyond the third generation of ownership². The challenge to family businesses is to not go down this path.

It is never too early to plan for succession and a reluctance to do so will only put pressure on the three circles shown in Figure 1 below. These circles may drift apart over time due to conflicting objectives, diverse personalities and differing views on the future strategy of the business. Early execution of a plan - be it formal or informal - where communication is done upfront to all members of the family, will assist in managing expectations of the family members.

Conflict is inevitable, stemming from competition, lack of shared vision, underperforming business units, and unresolved family conflicts. Issues such as deciding between the reinvestment of profits and the payment of dividends, the role 'in-laws' should or should not play in the business are examples of delicate but key issues affecting both the family and the family business. Conflicts often arise when

family members perceive that their needs are not met. Conflicts also surface when situations are unclear or not properly understood. The management of these conflicts is key to the survival of both the business and the family. Indeed, the main reason behind the emergence of conflict in family businesses is the lack of understanding and communication between the individuals within the three circles.

Figure 1: Family Business Dynamics



² *The Family Business Leader*, 2014, Yesterday is Tomorrow - Centuries of Family Business at Work Today, www.thefamilybusinessleader.com

What are some of the key considerations for an effective family business?

Importance of the concept of fairness

Fairness within the family means that all family members are treated in a consistent and fair manner. There should be transparency within the family where family members would not perceive that some are benefitting at the expense of others. Without this real commitment to fairness by all members of the family, divisions and fragmentation between family members will arise.

Preparation of the Next Generation – identifying and engaging the successor

The identification of a successor to the family business can never be too early. It is crucial to involve them in learning the business operations from the ground up as early as possible which will provide them with the necessary experience and sense of ownership and commitment to the family business. The process of identifying the successor must be managed delicately within the family and a general consensus has to be

reached and supported by all family members and other key stakeholders. Last but not least, aligning the vision of the senior generation and the incoming generation is crucial to the success of the transition.

Managing expectations through clear communications of the future

Clear communication and greater transparency are key ingredients to minimise conflicts. Family meetings should be held to broadly discuss and agree on delicate and sensitive issues such as compensation and distribution policies. Other family protocols, rules and procedures could potentially be developed which address important issues such as exiting the business, the performance assessment of family members involved in the business and their remuneration levels. This process will engage all members of the family and this involvement builds trust amongst family members. It also minimises the divergence in knowledge

of the business between family members who are actively involved in the running of the business and other family members who are merely passive shareholders which overtime could cause fragmentation within the family.

Establish formalised structures and protocols resulting from these communications with family members to decouple family issues from business issues

The consensus achieved through these family meetings have a greater tendency to survive in the longer term when protocols/ constitutions, rules etc are formalised and supported by structures and processes. Families that decouple or separate the ownership issues from management issues and keep a balance between their relationship as family members and their contractual relationship as business owners have a more sustainable family business structure. Families can consider the creation of family councils and

shareholders' assemblies for the family owners which is a separate forum from the board of directors and management of the company. The family council becomes a forum which allows family owners to be actively engaged in the debate surrounding ownership and family issues – the emphasis here being that all family members can participate, regardless of whether they are actively involved in the management of the business. In this way, the threat of family conflict is managed, and hopefully lessened and the chances of the next generation embracing and supporting the family business are improved.

Conflict Resolution Mechanism

A recent PwC survey of Family Businesses³ indicated that although most of the families interviewed admitted to having conflicts, over 70% of the families did not have any mechanism for dealing with disputes between family members. Historically we have seen

Malaysian family disputes result in high profile legal tussles in the Malaysian courts and consequently assets being frozen and divided family wealth leading to adverse consequences.

But Malaysian businesses are no different from family businesses that span the globe. Family businesses are increasingly creating formal conflict resolution mechanisms which provide a forum for family members in dispute to air their differences and hopefully resolve the issues in a structured and amicable way.

However, in family businesses, emotions sometimes run high which makes it difficult to resolve issues in an effective way. Therefore, families should set up conflict resolution committees which include the involvement of an outsider, a person who is trusted and well respected by the family, who offers that independent voice. The role of the independent outsider is extremely important as they bring in objectivity when they are called to help resolve family conflicts.



³ PwC, 2012, *Family firm: A resilient model for the 21st century*, www.pwc.com/gx/en/pwc-family-business-survey/index.jhtml

How can PwC Help

PwC Entrepreneurial & Private Client Services (EPC) is a team of business advisors dedicated to helping entrepreneurs and family business leaders resolve day-to-day business issues, create value and achieve long-term success. EPC offers the perspective of a third party with professional insights, tax and other business advisory and accounting expertise.





Let's talk

To find out more about our services or just to have a chat with us about your family or business issues, please contact:



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