

When family means business

Is there a potential that your business is at risk?

Nobody said owning a business was going to be easy. Even the most successful companies face challenges and risks that can have a negative impact on their operations or profitability. These risks can come from both internal and external sources.

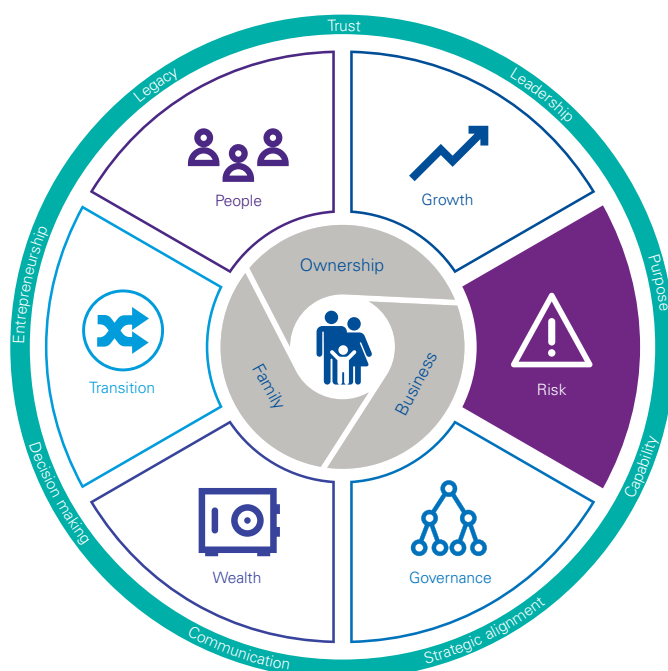
A family business has unique risks. If you are able to recognize and tackle these risks as they arise, you will have the potential to reduce their impact, while keeping your business and family on the right track. The family, business and ownership dynamic all play a

significant role in decision making. KPMG Enterprise member firm advisers work with family-owned companies like yours across several areas of the business, to help you approach these unique risks.

There are many benefits to addressing risk. A strategic and effective approach to risk management can help improve decision-making, increase accountability, focus resources in areas of highest risk, and increase your success in meeting business objectives.

Family business dynamics

As with your family, your business doesn't stand still — it evolves. Family businesses are unique, at the core lies an important dynamic connecting the family and the business through the family's ownership, which offers both opportunities and challenges. Surrounding each decision you may take, are strong family values and a purpose that helps you navigate the journey ahead. KPMG Enterprise advisers understand the dynamics of a successful business and work with you to provide tailored advice — throughout the lifecycle of your business.



“ KPMG Enterprise member firm advisers work with family-owned companies like yours across several areas of the business, to help you approach these unique risks. ”

Identifying possible risks in the family business

Family businesses often have competitive advantages over their non-family business counterparts. However, the family advantage can turn into a threat if the risks are not managed well.

Common risks that can affect a family business include:

Lack of family cohesion

Disagreements within a family can be more emotional than disagreements between colleagues. If these disputes are not handled properly, they can often spill over into the operations of the business.

Poor succession and governance planning

Family businesses often forget to put in place a formal succession and governance plan because they believe that everything will work out in the end. The lack of an established governance model and succession plan can stunt business growth, especially in the case of a death, divorce or marriage in the family.

Inability to adapt

If your business does not change and grow in relation to the changing marketplace in which it operates, it will not be able to adapt and succeed.

Money matters

Having poor financial management strategies in place can be detrimental to both the company as well as the family. Areas such as cash flow management can be a downfall if the boundaries between the families personal bank and the organization's finances are blurred.

Multiplying risks

Given the speed of change in the IT world today, not having the right technology, implemented correctly and managed on a regular basis can lead to catastrophic outcomes including reputational damage, legal exposure and market value loss.

Fraud and cyber prevention

The increasing sophistication of fraud, cyber threats, organized crime and more complex legislation and regulations with increasing extra-territorial reach have made this area an increasingly important concern. It is critical to establish internal controls and cyber defence systems to monitor and help to mitigate potential fraud from occurring.

Taxing concerns

Understanding the complexities and changing tax regulations for a national or internal business can be overwhelming. But not seeking sound advice and having an effective tax management strategy in place can lead to serious legal issues.

The war on talent

Recruiting and retaining talented staff can be one of the greatest challenges of a family business. A great team can help to grow a business exponentially and in turn the loss of staff, or ill-equipped members can have the same opposing reaction.

Many risk factors are out of a family's control, but there is one way that family businesses can avoid several of these risks — communication. Effective communication is one of the single biggest challenges in managing the family component.

Having a communication strategy is not often equated with risk management, yet it is a risk factor over which the family business owner has total control.

// Family businesses often have competitive advantages over their non-family business counterparts. However, the family advantage can turn into a threat if risks are not managed well. //

Strategies for successfully managing risks

From cyber security issues that can paralyze operations to social media blunders that can damage your brand, your business has to be prepared to understand and mitigate the potential risks that can affect your business. Some suggested strategies are:

— establishing regular family meetings to ensure lines of communication are open and used as a forum, where family members can voice their opinions about business and ownership issues

- a thorough cyber security strategy so that your business assets are protected and a plan is in place to react and recover quickly
- honest and frank discussions about the circumstances and behaviors that can lead to reputational risk
- a thorough review of business dealings to ensure all legislative requirements are met

- an assessment of the return on investment ensuring that the return is commensurate with the level of risk acceptable to the family and the business
- an effective and compliant tax strategy to help make certain after-tax cash flow is maximized
- proper fiscal and governance measures in place and reviewed on a regular basis to keep the business running as a business
- the right internal controls, suitable for the complexity and maturity of the business, to help prevent undesirable activities and protect the business from financial or reputational loss.

Family businesses that have applied these strategies tend to excel in their markets and are more likely to continue for many generations. A KPMG Enterprise adviser can help you understand how to turn risk into opportunity.

// Cyber security issues that can paralyze operations to social media blunders that can damage your brand, your business has to be prepared to understand and mitigate the potential risks that can affect your business. //



Case study Addressing risk prevents disaster

The Johnson* family owned and operated a chain of grocery stores. Over the years they had substantially increased their profits and added locations through acquisitions. As the family members stepped back from daily involvement in the business, non-family employees were increasingly managing the day-to-day operations.

Communications between family members were becoming less frequent. At a board of directors meeting, the directors questioned management and the family on their top ten risk areas and what plans were in place to mitigate those risks.

Surprisingly, management was only able to list operational risks such as safety and business continuity. While the family considered themselves to be moderate risk takers, the acquisitions of the last few years had increased their debt. The financing structure and the restrictive debt covenants were negatively impacting cash flow and the ability to pay dividends to the shareholders. Of even more concern was the lack of communication on the actual return on investment of the newly acquired properties.

Then it happened. A significant flood damaged one of the business' coastal properties. Due to the operational risk mitigation policies recently set up with the help of their local KPMG Enterprise adviser, everyone was safe and the property was adequately insured. Everyone quickly realized how devastating this event could have been if the risks had not been identified and acted upon. This event became the catalyst to ensure other significant family and business risks were promptly identified, assessed, and mitigated. Regular family meetings became an important risk management strategy.

*Actual family business members' names have been changed to protect confidentiality.



We're here to help

KPMG Enterprise family business advisers understand the impact of family dynamics on your business. We can help you understand and address your company's vulnerabilities — from both a business and a family perspective.

While risks can never be entirely eliminated, being aware of what your risks are and where they come from can help you steer a course to success for both your business and your family.

Contact us



David Leahy

Partner
Markets
KPMG East Africa
M: +254 709 576 191
E: davidleahy@kpmg.co.ke



Daniel Karuga

Associate Director
Risk Consulting
KPMG East Africa
M: +254 709 576 262
E: dkaruga@kpmg.co.ke

kpmg.com/enterprise

kpmg.com/socialmedia



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2019. KPMG Advisory Services Limited, a Kenyan Limited Liability Company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

Designed by Evalueserve.

Publication name: Risk: Family business dynamics

Publication number: 134372f-G