

Family Business Times

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Welcome to the Family Business Times. Our aim is to offer ideas that are helpful to everyone who is involved in the family business scene. This edition covers some of the challenges faced by families who want their business to remain entrepreneurial across the generations. We hope you find these thought provoking.

Entrepreneurial family businesses

The demographic reality for most family businesses is that the business created and then bequeathed by generation 1 (or G1) has to continue growing to support the needs and aspirations of a larger family in G3. But, you may ask, why would a family business bother when it is regularly claimed that all of them are doomed to go from clogs to clogs or shirtsleeves to shirtsleeves in three generations?

Damned clichés

It is odd that ‘clogs to clogs’ is regularly trotted out as evidence of the vulnerability of family businesses. Really? Three generations is roughly 100 years. Few, if any, entrepreneurial start-ups will last this long and many listed companies will cease to exist during this period. If longevity of a particular business is so important, most family owned businesses will outlive their competitors.

Can families breed entrepreneurs?

We may as well try to start at the beginning and look at the difference between sculptors and gardeners, as parents.

The sculptor has ambitions for the child and will do all he or she can to guide and form the child so that they turn out in a way that complies with the sculptor’s design. In comparison, a gardener tries to cultivate the child, caring for its roots, and with a bit of careful pruning from time to time waits for the right season in that child’s existence for the flower to appear. A gardener doesn’t expect a flower to emerge just because he or she orders it to do so.

The argument is that gardeners are more likely to breed entrepreneurs than sculptors. Gardeners allow space for the child to develop, no matter how occasionally exasperating this is. They acknowledge that life involves making errors that cannot all be avoided by careful planning, due often to factors beyond the gardener’s control. Meanwhile the sculptor is busy trying to mould the heir or heiress and for understandable reasons help them to avoid any of life’s pitfalls that do not serve the goal of achieving the sculptor’s desired outcome.

Gardeners, in other words, are more of the view “go out and see if you can make it”, whereas sculptors tend to the view “see what I’ve made you in to.”

Backing the talent in your lineage

After a family business has passed through the start-up phase the challenge becomes how to maintain an entrepreneurial attitude, when at the same time trying to run a maturing business.

One way of doing this, if resources allow, is to set up a new venture fund to support family members who want to start a new business. Family members can be encouraged to present business plans and whoever is in charge of the fund (family members, advisers, experienced business people) decide which to back, much as would happen with a conventional private equity or business angel fund.

Usually investments will be made on broadly commercial terms, maybe a bit softer to reflect kinship bonds, but the key driver for many families is to encourage entrepreneurship by backing the talent in their lineage. In so doing they are also wise to the fact that this can lead to successes that diversify the family's wealth, thereby managing the risk of families having too many eggs in one business basket.

Don't overlook history

Families who create great dynasties over generations are good at telling the next generation the stories of past success and failure. The key here is to focus on how each generation has contributed to the story of the *family's* continuing entrepreneurial success. This encourages the next generation to take up the challenge of becoming the authors of the next chapters of the family's continuing story of entrepreneurship.

This approach, however, is in stark contrast to the accounts of entrepreneurship that venerate the greatness of individuals, who are blessed with talents that are beyond other mere mortals. In a family business this comes across to the next generation as 'you'll never be as good as your ancestors, so why bother?'

Other things that get in the way

Entrepreneurs take risks that carry the imminent risk of failure. While it is understandable for families to create structures, like trusts, to preserve wealth as it passes down the generations, the idea of preserving what we have is inconsistent with taking the type of entrepreneurial risks that created the business in the first place. So the final word is a warning to be careful about using risk averse structures if the family's aim is to continue being entrepreneurial.

To find out more about the points raised in the Family Business Times please contact us [here](#).

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