KPMG Enterprise

Family Business Times

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Who do you trust?

A simple question to begin with. Who do you trust more; the spouses or partners of your siblings or the siblings of your spouse or partner?

Maybe this is not such an easy question but the answer will certainly affect how a family feels about who can be trusted to become an owner of their business or work in it.

Trust-based governance

There is a strong instinct towards trust-based relationships in family businesses.

— Management responsibilities are allocated based on trusting each other's talents.

— As a result, hierarchical, top-down governance, with excessive monitoring and reporting are replaced by horizontal relationships, openness and a commitment to teamwork.

— Trust enables speedy decision-making, which is informal with a willingness to waive any rules where the right result has been achieved.

— Family business owners who trust each other are willing to take a long-term view of their investment return, thereby giving the business the competitive advantage of cheap capital.

— Governance based on trust can generate goodwill among owners, employees and families who feel that they can trust their colleagues to take the interests of others into account. This encourages personal qualities like empathy, sympathy and an awareness of the value of the greater good as distinct from a focus on personal gain.

Should you trust conventional corporate governance?

If governance based on trust sounds appealing, then a word of warning for family businesses about conventional corporate governance; it is based on distrust.

Conventional corporate governance assumes that management will act in their self-interest and therefore, should not be entirely trusted by the shareholders. Rules, codes, guidelines and formal enforcement mechanisms are needed to mitigate the type of opportunistic management behaviour that could result in reduced shareholder returns.

If as a family business owner you feel wary about trusting those who run the business, conventional corporate governance has some merits. But if you feel that there is a good level of trust amongst family who are in business together, you need to be careful about what you import from conventional governance. You could be making life more difficult.

Who do you trust (2)?

Which of these statements do you prefer?

1. 'I tend to trust people with whom I have something in common.'

or

2. 'I believe that people are generally trustworthy and if I adopt a trusting attitude it will be reciprocated rather than abused.'

If you prefer 1 you are likely to limit those who can be trusted to direct family or close friends and perhaps members of the same cultural, ethnic or kinship group. It could include those with whom you share an educational or professional background or other social connections, like a membership of a club or association.

If you prefer 2 you have a propensity to trust people and you do not rely primarily on shared characteristics.

This matters in family business governance because it directly affects who you can trust in key positions as owners, directors, managers and even advisers. For example, if you are 1 you will only feel comfortable trusting people in your group and it might become challenging to grow the family business unless all the talent you need can be sourced from within that group.

The advantages of trust

There is a lot to be gained from mobilising trust in how a family business is run. Advantages exist that are beyond the reach of other types of business that denigrate the notion that trust is an effective way to build relationships. So the simple questions matter – a lot.

To find out more about the points raised in the Family Business Times please contact us here.

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