



Grant Thornton

An instinct for growth™

Family businesses







Many of the most respected, best performing companies in the world are family-owned. With their long-term vision and capacity to create employment, family businesses are a major growth driver in most national economies and make unique contributions to society in general.

The Corinthia, Sterling, Gasan and Farsons groups are just some of Malta's most enduring brands and favourite products that have been created by family firms. With almost 4,000 family businesses registered in Malta, this cluster of enterprises are truly the backbone of our industry.

What makes this type of business central to the Maltese economy is the sheer diversity of their structures. Despite the common perception that family business tend to be small in size, this may not be the case. A brief analysis shows that they come in various sizes, which exposes them to a whole myriad of difficulties and challenges. It is thus safe to say that defining a family firm or a business can be a treacherous exercise. Co-preneurs (couples who have gone into business together), step-families, siblings, cousins and other family groups can form family businesses. The family may own and manage the firm, or have a stake in the family business, but no longer actively lead the organisation.

A quick study of the local economy will also indicate that a few family businesses account for a considerable share of the total turnover of all businesses and thus make a significant contribution to job retention. This is especially important in times of crisis, as well as for ongoing creation and growth, fueling the economic engines of the Maltese islands.

Family businesses also serve as the brains behind innovation, the heart behind local philanthropy, and the nerve system of our entire free enterprise system. This is often thanks to the core values endorsed by such business, whose set of timeless guiding principles, have an intrinsic value and importance to those inside the organisation, its customers and society at large.

Family enterprises facing indecision or internal conflict rely on the broad and globally tested expertise of Grant Thornton to create and implement solutions that address their unique challenges and opportunities.

Grant Thornton's family business advisory team assists families, owners, and managers in navigating the challenges of leadership, succession, and governance across generations. As a \$5 billion global organisation with member firms in more than 135 countries, and with decades of experience serving some of the world's finest family companies.

We know that the critical first step in this journey is to build alignment among family members around the family's philosophy and approach to business and ownership. With this in mind, we work closely with family members and owners to create an environment conducive to driving the best people decisions in their specific context.

Grant Thornton's tailored services for family businesses

Despite their inherent strengths and global economic significance, family-owned companies face unique vulnerabilities. Potential sources of discord among family members loom around every corner: generational transitions, major investment decisions, appropriation of profits and leadership appointments. After all, why should entrepreneurial families be less quarrelsome than any other group of relatives? The consequences of their disputes, however, can be more serious and far-reaching. Conflict is, perhaps, the greatest destroyer of value in family firms.

For family-owned companies to sustain dynamic progress across generations, they need to manage the inherent conflict between family and business on a consistent basis. Finding an equilibrium that leverages the best aspects of both family and business is difficult, but if done well, it offers handsome rewards. This is the art of family business management.

Our solutions for family enterprises centre on alignment of all aspects of the family and business, including culture, vision, mission, values, governance, ownership, leadership, communication and policy

development. This alignment eliminates conflict that undermines success and clears the way for stronger competitive advantage, enhanced family harmony, and greater likelihood of long-term enterprise continuity.

We take a holistic approach to a wide variety of activities including proactive family education, family councils, board development, family meeting facilitation, conflict management and resolution, financial and business strategy, succession planning, management and leadership development and more.

Our areas of expertise when dealing with family business include:

- assessing the 'readiness' of family businesses for the transition/succession process
- helping families prepare for and navigate through the transition/succession process
- providing options for both management and ownership succession within family businesses
- facilitating family meetings for the active family members and family councils for the broader family
- developing family business 'Codes of Conduct' or 'Family Rules' to help prevent potential conflict among family members
- assisting in the development of effective shareholder agreements that meet the needs of both the family business and the family (including decision making processes, exit strategies, distribution policies, and executive compensation)
- coaching individual family members as the family business evolves
- development and implementation of family wealth planning programs.

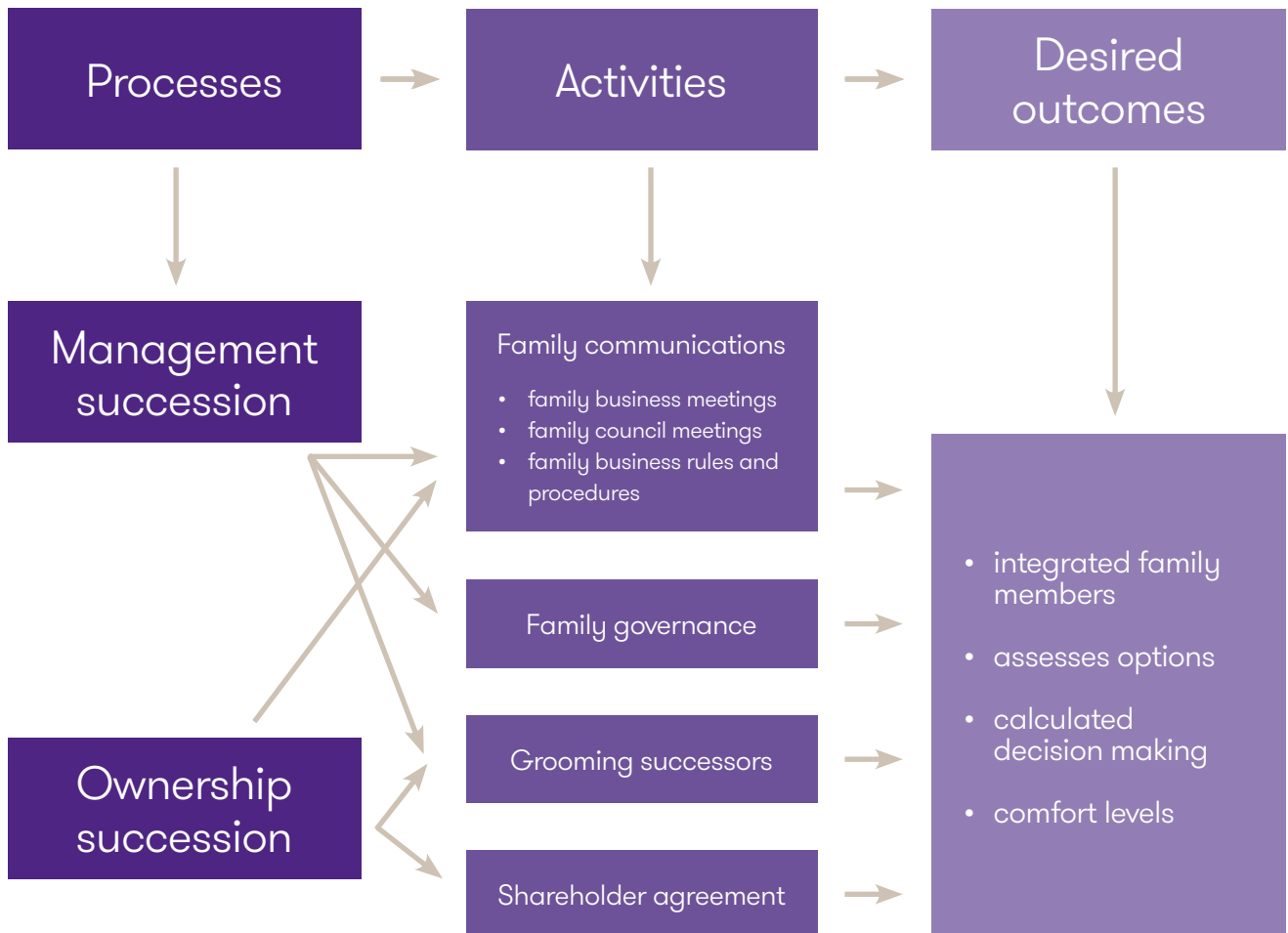
85 %

of all European companies are family businesses. These account for 60 % of jobs in the private sector. According to the EY Family Business Yearbook 2014 report 43% of Maltese businesses have been in existence for fifty years or more compared to the global sample of 38.7% of Maltese businesses that have been around for less than twenty years.

According to the same report, Malta's family businesses employ about two-thirds of the private sector workforce, and contribute more than half of the country's value added.



Our family business succession planning model



Less than one third of family businesses survive the transition from first to second generation ownership. Another 50% don't survive the transition from second to third generation.

Source: 2013 Forbes: The Facts Of Family Business

Management succession

The process of choosing the next generation successor is often more difficult in family businesses than their non-family counterparts. Choosing the wrong successor can be detrimental to both the business and the family. Common management succession issues include:

- development and implementation of family wealth planning programs
- timing of management transition and operational control to the next generation
- roles and responsibilities of both current owners and potential successors
- competency assessments and grooming plans for potential successors
- family business and council meetings, for active family members and the broader family respectively.

By implementing our family business guidelines to family succession and a proper governance structure, the management succession process can be completed with minimal conflict and will result in the most competent successor being chosen.

Exit strategies

To minimise the conflict arising from the eventual exit of a family member from the ownership ranks, all exit strategies (such as death, disability, incompetence and voluntary exit) should be clearly identified well in advance, agreed upon and included in the shareholders' agreement.

Ownership succession

One of the biggest challenges associated with family business ownership is the difficulty that the current owners face in letting go of their business. Letting go is difficult for all owners and even more so for founders; however, in a family business the additional challenge presented by the family component increases the complexity of this process. Such issues include:

- timing of the ownership transition including partial ownership transfers
- who can own shares in the family business and what criteria or plan is this based on
- spousal and in-law expectations with respect to ownership
- pre-determined exit strategies
- funding of ownership transition.

Our team of family business advisors will ensure that such ownership issues are dealt with in an effective and structured approach.

Governance

Having a proper governance structure is essential to the succession process for family businesses. The lack of proper communication channels is often the root of much of the conflict during both the management and ownership succession processes.

Grant Thornton proposes family business meetings and family councils as governance structures that can be implemented to increase the comfort of the current owners and help groom the potential successors - all while keeping honest and open communication between the family and the business. These two governance structures will keep the business and the family well-informed, which will lead to better decision-making for all parties. It can be argued that a family council meeting should only be held once effective family business meetings can be held by the active family members. However, this may not be the case for all family businesses. Grant Thornton can advise on this, and facilitate the implementation of the ideal governance structure based on the exact scenario.

Tax services

Whether a family business, or a multi-national entity, ambitious organisations need to consider their tax affairs carefully to gain trust and stay ahead of their competitors. Tax is a key part of Grant Thornton's organisation and our award-winning team can offer a range of solutions, whatever the size of their business or the challenges they are facing.

Using a combination of reason and instinct, we can work with clients to develop a strategy that helps them understand and manage their tax liability in a transparent and ethical way. Complementing our tax consulting and compliance services we can also support in the following areas:

- corporate and business tax
- direct and indirect international tax
- global mobility services
- private client services
- tax policy
- estate planning
- ship and aircraft registrations
- transfer pricing.



Grooming

Preparing successors for leadership and ownership is an integral part of any succession process. Grant Thornton can help formulate the necessary grooming plan for all the potential successors. This will help the current owners obtain an appropriate level of comfort with respect to the successor's competencies, work ethic, and commitment to the family business.

Access to finance

Like all companies, family businesses need finance. As a Maltese enterprise, they have a number of financing options to consider. With the rapid pace of change in the local business scene, they are dealing with more complexity and facing new challenges when it comes to sourcing finance for their business ventures. At the same time, local financing options have increased exponentially, now also including Prospects MTF and angel investor options. One may also benefit from local or EU grants..

It is for this reason that, as an ongoing business concern looking at expanding, when it comes to raising capital, it's important that this is done wisely to minimise the risk of collateral damage.

At Grant Thornton, we don't believe that one size fits all. We also don't believe that there's one financing solution out there for everyone. We do believe however, that when raising funds to support business growth, one needs to be aware of all the options available. This is why we are dedicated to working with family businesses to find the right financing solution that will help both their current and future needs.

We pride ourselves on the fact that most of our client relationships are long-term. We earn your loyalty by being energetically responsive to your needs and tenaciously committed to the legacy and ongoing success of your family business.

We perceive ourselves as an equal, global partnership. Our values and philosophy are very similar to family firms and we are uniquely qualified to understand the dynamics and challenges particularly in respect to governance and succession issues of family business environments.

Our goal across all our services is to help you make better people decisions for critical roles, systematically increase your leaders' readiness to take on bigger challenges, build a sustainable talent pipeline, and ensure that your family business has the diverse strengths required to sustain competitive advantage.

A global reach



We are a network of independent assurance, tax and advisory firms, made up of 47,000 people in 130 countries. Private individuals and organisations come to us for our global scale, quality, industry insight and deep technical expertise. But what sets us apart is our distinctive client experience which leads to more meaningful advice and a better working relationship.



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