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Family Businesses
Time to Shape up!

We have no official statistics that show how many family businesses operate in Malta. What we know is that according to the latest statistics around 98% of businesses in Malta are Small & Medium Enterprises[1] (i.e. employing 250 persons or less). We also know that the vast majority are family owned and/or family run. Presently we have 259 businesses[2] that are registered with the Family Business Office, meaning that they fall within the definition of what constitutes a Family Business according to the Family Business Act (Chapter 565 of the Laws of Malta)

The definition of what constitutes a family business in the Family Business Act is rather restrictive, as it is defined as a business that is registered as a Limited Liability Company or Partnership where: a) at least two owners are family members within the same family, b) no single family member holds more than 80% shareholding or interest in the structure, c) at least one family member is formally involved in the general governance, proper administration and management of the business structure.

This means that all those family businesses that are run as a sole trader or those family businesses being a company that are officially owned by a single family member, although many other family members are involved in it, are not officially recognised as family businesses by the Family Business Act. This does not mean that in reality they are not family businesses. This may include private medical clinics, dental clinics, as well as pharmacies. We are also increasingly seeing the emergence of small chains of clinics and pharmacies.

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However, it is officially accepted by all, that family businesses form the backbone of Malta's economy, which is why it is in everyone's interest that we have good performing and solid family businesses.

As an advisor to family businesses for several years, I have experienced first-hand the strengths and weaknesses of family businesses. On one hand, family businesses have the common strength of having a long-term view of things. They normally know that they are in business for the long haul and thus even when they invest, they have a view that the returns from an investment is to be delivered over a long-term period. On the other hand, family businesses have a number of weaknesses that they would do best to work upon to mitigate them, especially as we are now likely going to enter a period with less economic buoyancy. What are these weaknesses?

- They lack a strategic mindset. Many family businesses are completely engulfed by an **Operation mindset** – the mindset that focuses on daily issues and with a clear focus on just internal matters. As we are now in a period of very fast change, family businesses need more a **Strategic mindset**, with a clear focus on what happens around them, how the market landscape and consumer preferences are changing and hence how best to respond to these changes. Unfortunately, many family businesses get lost in firefighting the present, rather than planning the future.

- As an indirect result of the lack of a strategic mindset, they lack appropriate corporate and family governance structures. The first thing I ask when I visit for the first time a family business is not to review their financial statements, but a more simple question, "Where do you meet to discuss things over?". You would be surprised to learn that many family businesses either do not have such a space where the family business leadership can meet to discuss and decide or otherwise the space they have is inadequate as it is either too small or lacks basic facilities. Family businesses badly need corporate governance structures like an effective and functioning board of directors, preferably with some independent,

non-executive director on the board. They also need other governance structures like a family forum to balance the rights and duties of family members who are involved in the business and those that are not.

- Lack of succession planning. As I keep repeating, succession planning is a journey and not an event. However, a common mistake I see in family businesses is that they keep postponing finding time and work on succession planning. This results that they are being caught out – many times trying to do something about it when it's too late. Succession planning is a journey and requires careful planning and effort from all angles, both from the older generation and the new generation. It requires that on one hand the older generation is able to pass on the baton, whilst training and then letting go, while on the other hand the new generation proves its skills and commitment, whilst still being allowed space to come forth with its own ideas.

- Lack of policies. Many family businesses lack formal policies with regards dividend distribution, family employment and how to preserve the family wealth. These policies become very important beyond the first generation as more family members are likely to be involved in the business in one way or another.

The final takeaway message is simple. I hope all family business owners realise, that since change around them is happening at an increasing accelerated pace, they cannot keep operating like many of them did in the past. As I keep repeating, what made family businesses successful in the past will not be what will make them successful now and in the future. Maintaining an amateurish and informal approach to the way a family business is run is directly equitable to burying one's head in sand.

References:

1. NSO News Release. Structural Business Statistics: 2019. Published 8 July 2021. Accessible at: https://nso.gov.mt/en/News_Releases/Documents/2021/07/News2021_120.pdf

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