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The entrepreneurial spirit

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Deidree Bain lays out considerations for advisors in supporting family entrepreneurship

The COVID-19 pandemic has placed an unpleasant spotlight on mortality and incapacity at any stage in life. Although succession planning has been a subject of conversation for several years as families prepare for the great generational wealth transfer, the disruption caused by the pandemic has sparked yet another, more positive, paradigm shift.

Creativity and innovation thrived during the lockdowns, as indicated by the increase we have seen in entrepreneurship within families. Calculated risk coupled with good practices can benefit everyone, but advisors and trustees must adapt to support families in managing the responsibilities and complexities that come with change and innovation.

Agility, stewardship and good governance are the foundations on which trustees and advisors often build when dealing with family structures. Although risk is imminent in all business ventures, supporting family businesses that are considering departing from their traditional enterprise can be both daunting and exhilarating.

There are some practical questions that advisors might wish to ask themselves regularly:

- What new risk factors now affect my client's business?
- What are my client's views on risk and what is their business risk appetite? Is this well documented and accessible to family members, if appropriate?
- Do I speak with my clients often enough to ensure that I am aware of their business strategies and practices that might knowingly or unknowingly expose their business to risk?
- Do I conduct regular strategic reviews of current structures to ensure that they are relevant today?
- Are my skills and knowledge keeping pace with changing environments to allow me to offer competent and professional advice to my clients? If not, is my network sufficiently versed to assist?

Further, advisors ought to reflect on a few key factors when considering solutions that will help families plan for their futures with certainty and clarity.

Risk, regulation and reputation

Managing risk and reputation while navigating regulation is at the core of what trusted advisors do for their clients when helping them put together structures. Identifying inherent risks, developing a framework to assess and manage them and monitoring their potential impact should be common practice in modern businesses. Regulation has kept pace with business innovation and provides an element of protection.

Additionally, risk should be considered holistically, including reputational risks, if newer or riskier ventures do not work out.

Families will understandably be protective of the good reputation they have built and that should remain at the forefront of any planning.

Digital transformation

Digitalisation and the use of technology for connectivity and commerce has increased exponentially in the past three years. From digital currencies and cybersecurity to intelligent automation, there is a clear drive towards a ‘digital-first’ mindset.

The risk associated with technology has also increased and advisors should carefully review how digital transformation impacts clients and their structures.

There is often a need to update policy statements and constitutional documents to acknowledge investments in and holding of digital assets, including cryptocurrency, non-fungible tokens (NFTs) or the use of decentralised autonomous organisations (DAOs) within businesses.

The development of a clear succession plan for these assets is essential and advisors can expect to see a continued increase in requests for guidance with the holding and treatment of these assets.

Strategy and governance

Most families have worked with advisors for decades, establishing well-thought-out legal holding structures, intentionally including the younger generation in the governance of such vehicles, and ensuring they are well versed in the inner workings of the family business. The influence of the younger generation is evident, as is the importance of the future owners of a business being invested in its strategic direction.

Family business strategies should allow for entrepreneurial opportunities that might arise, for example, from shifting family dynamics, changes in jurisdiction of family members or business opportunities in new markets. Encouraging business planning designed on the fundamentals of good governance (responsibility, accountability, transparency and equity and inclusion) helps to provide some cushion if new areas of business fail.

Advising modern families can be a game of Tetris; ensuring that the parts that fit best are added effectively and efficiently to keep the game going. Advisors must keep their eyes on the big picture, while consistently and proactively applying their knowledge and skills for the client's benefit. To ensure that this happens, advisors should have regular, purposeful conversations with key family members. Building deeper, more rewarding business relationships with long-term impact is fundamental to helping clients to succeed, whether that be by traditional methods or through calculated risks.

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