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HKCGI Wealth Management Guidance Note (Third Issue) – Supporting Decision Making Process of Family Businesses

Overview

This guidance note aims to assist governance professionals in comprehending some, but not all, of the intricate psychological factors that influence a decision-maker's choice for a family-owned business and the associated governance difficulties. As part of the governance of a family-owned business, the governance professional might have experience assisting a decision-maker in evaluating investment risks, succession or other decisions from the governance perspective. The governance professional, however, might need help comprehending the decision-maker's reasoning behind their judgements. This guideline note aims to inform governance professionals about the underlying psychological problems that a family company decision-maker may encounter. The governance professional may be better able to support the decision-maker in identifying and addressing governance issues for the family-owned company if they have a deeper awareness of the underlying issues.

The Salient Challenges

Behind the opulence of an extraordinarily wealthy family-run company and how decisions are made may be a complicated web of underlying psychological issues. In other words, even when a company is doing well, its governance choices reveal more than what first meets the eye. According to psychological theory, making judgements on the company's strategy and objectives is just one facet of the governance-related issues that a family-owned business's decision-maker must consider. The other is how intricate familial relations influence those choices. These dynamics greatly impact the ability of those in charge of family businesses to make the perceived best decisions for the company.

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The Core Problem

When we take a broader view, protecting their tremendous fortune for future generations is a core concern for many wealthy families. Given the complexity of managing intergenerational family ties and the need to live up to family legacies and expectations, those inheriting them may experience an even greater emotional and psychological toll. The governance professional should know that when a decision-maker makes significant business decisions for a family-owned company, intricate factors may not be immediately obvious.

In one instance, a council is in charge of a family-owned business with billions of investments in the Mainland and South East Asia. The head of the council must consider the interests of all council members, the family members they represent, and future generations. Speaking and making investment decisions for the entire family, the head of the council has a difficult balancing act, which might only please some family members. All decisions must be commercially sound to protect the assets and investment returns. This example ought to make the governance professional more conscious that significant decisions made by a family business's decision-maker involve a complex interplay of business and psychological considerations that influence the family business's associated governance.

Guidance for Governance Professionals

Governance professionals must understand the intricate relationship between psychology and governance in family-owned firms to effectively facilitate family employers in making decisions that align with best practices. The following applied governance approaches would assist the governance professional in discharging their roles and responsibilities.

1. *Build trust and a rapport*. Family members may be reluctant to discuss their more serious concerns since family-owned enterprises are frequently private. The governance professional must build rapport with family employers to enter a confidential, secure dialogue space. Gaining rapport and building trust would be easier for governance professionals if they better understood family dynamics and the factors in making decisions.

2. *Acknowledge Emotional Challenges*. A normal part of the decision-making process is the emotional challenges of balancing the interests of different family members and the interests of future generations as stakeholders. Assure family members by acknowledging their emotions that feeling under pressure is normal. Building rapport and trust requires doing this as well.

3. *Promote Best Practices*. Educate family decision-makers on the concepts and methods of good governance. Help them understand how important it is to keep some personal impulses separate from business decisions to ensure that decisions align with the organisation's long-term goals.

4. *Encourage Open Communication*. Encourage family members to communicate openly and honestly. To allow everyone to voice their opinions and concerns, encourage regular family get-togethers and conversations regarding governance-related topics. Family conferences and offsites are common.

5. *Provide Conflict Resolution*. Family-related disputes can impact governance. Provide conflict resolution strategies and facilitate talks to find a compromise where necessary. A few tycoons, for instance, have trust funds for different generations to avoid conflicts.

6. *Provide Emotional Support*. Acknowledge that managing psychological problems can be difficult. When it is acceptable, gently advise individuals in positions of authority to give family members access to professionals such as therapists, counsellors, or psychologists to assist them in managing their emotions and stress.

7. *Keep an Eye on Long-Term Sustainability*. To balance the interests of generations of family members, including future generations, place greater weight on governance decisions that promote the family-owned business's growth and long-term sustainability than on immediate profits. There might be the need to define, or ensuring well defined strategic priorities of the family office/council as that is something that should not be assumed by anyone and to tie in future generations. For example, is it wealth preservation, growth, or divestment or diversification, or any philanthropic objectives.

8. *Document Governance Structures*. To avoid ambiguity and potential conflicts, clearly describe the roles and duties of different generations of family members. This ensures that family members know their roles and the rules around their participation.

9. *Continuous Education*. Keep up with family governance and psychological developments. Participate in educational events, seminars, and workshops presenting different viewpoints on how family-owned businesses evolve and manage governance challenges.

Conclusion

Acknowledging the intricate connection between psychology and governance in family-owned enterprises is crucial. A deep understanding of the psychological dynamics at work is necessary for governance professionals to assist family employers in making governance decisions that align with best practices. From a psychological standpoint, governance professionals may support strong governance in family-owned companies by navigating the intricate web of family dynamics with the useful tips previously discussed. This comprehensive approach benefits all parties, including the family and ensures the long-term stability and profitability of the family-owned firm.

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