

Withstanding the passage of time

TRUSTS AND FAMILY BUSINESSES

The family business model is the most common business unit, both globally as well as locally, with an estimated 70% of all local businesses taking the form of the family business. Family businesses have proven resilient in the face of the global financial meltdown, with their value driven and principles based approach weathering the worst of the financial storm.


Having said that, whilst family businesses have proven to be strong in the face of external pressures, they often face great difficulties in managing internal matters, with the transfer of business from one generation to the next being the most common challenge.

Indeed, the continuation of the business often becomes problematic due to the increase in the number of family members and the different visions, capabilities and personalities of the members. Often, striking a balance between being fair and being efficient proves to be taxing and risks compromising the company's commercial strength. Frequently leaders in family businesses end up believing that the only choice lies between breaking down the business or breaking up the family. It is commonplace for the situation to become emotionally charged, thus making it difficult for solutions to be found internally.

Sound business advice and an appropriate legal structure can be the cure to such ailments and, in this regard, trusts can be an excellent vehicle to address such complex problems. Owing to

their flexibility, trusts can provide a balance between protecting the business' commercial power and avoiding strained family relations.

A trust allows the founders of the business to plan the direction of the business after its transfer to the next generation by tailoring the trust to the issues unique to each family. A trust also serves to implement effective family corporate governance, conflict management and asset planning and facilitates the creation of a clear distinction between family life and business life which are otherwise easily blurred.

Clarity, continuity and fairness are the values which have permitted the family business to withstand the financial crisis, and the trust safeguards the seamless hand-over of these values through generations. 

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