Family Businesses in LATAM: Is Weak Governance Their Biggest Enemy?

70% of family businesses fail to survive into the second generation, and in LATAM, where these companies are the backbone of many economies, the problem is even more pronounced. Why does this happen? What keeps businesses with decades of success from ensuring their continuity?

The answer often comes down to a lack of effective corporate governance. From poorly defined roles to internal conflict and missing succession plans, family businesses face unique challenges that, if left unaddressed, can limit their competitiveness and sustainability. This article examines the key pain points, the impact of weak governance, and the solutions for turning these businesses into sustainable engines of growth.

The impact of poor governance: The cost of ignoring the problem

Family businesses tend to operate under a hybrid model in which business and family decisions become intertwined, creating a series of challenges:

1. **Confusion between family and corporate roles:**
   - Decisions based on family relationships rather than capabilities breed resentment and internal conflict.
   - Lack of clarity around responsibilities fuels organizational chaos.
2. **Loss of competitiveness:**
   - Without formal structures, family businesses struggle to adapt to a dynamic market.
   - Innovation lags because of a preference for maintaining the status quo.

3. **Unresolved family conflict:**

- Differing expectations among family members affect decision-making.
- Internal disagreements often escalate into disputes that can paralyze business operations.

4. **Financial and reputational risk:**

- Poor resource management can lead to liquidity problems.
- When internal conflicts become public, they damage how customers and investors perceive the business.

Common governance mistakes in family businesses

Before exploring solutions, it helps to identify the most frequent mistakes that undermine governance in these companies:

1. **Confusing the family with the business:**

- Placing family members in key roles without considering their experience or skills.

2. **Overlooking the importance of a board of directors:**

- Lack of outside counsel and independent perspective.

3. **Avoiding difficult conversations:**

- Postponing succession planning or the resolution of family conflicts.

4. **Lack of transparency in decision-making:**

- Informal processes that breed mistrust and disputes.

Solutions for transforming corporate governance

Adopting strong governance structures is essential for family businesses in LATAM to address today’s challenges and secure their future. Here are some key strategies:

1. Separate the family from the business

- Set clear boundaries between family and business roles.
- Create a family protocol that defines how key decisions are made and how conflicts are handled.

2. Build an effective board of directors

- **Include independent members:** Outside professionals with relevant experience can bring objectivity and fresh ideas.
- **Defined roles:** Each member should have clear responsibilities to avoid duplication or confusion.

3. Design a structured succession plan

- Identify potential successors years in advance.
- Provide ongoing training to develop their capabilities.
- Include a clear timeline for the transition, ensuring leadership is aligned with the strategic objectives of the business.

4. Professionalize decision-making

- Incorporate technology tools such as CRM and analytics systems to support decisions with data.
- Use clear metrics (KPIs) to evaluate the performance of both the family and the business.

5. Run a business diagnostic

- Use diagnostics to assess governance gaps and gain a clear roadmap for prioritizing solutions.

Practical case: How a family business overcame its governance challenges

A family-owned retail company in Colombia, with 40 years in the market, faced internal conflict and a lack of succession planning. Its problems included disputes over profit distribution and centralized leadership that hindered innovation.

After completing a business diagnostic, it implemented the following measures:

- **Creation of an independent board of directors:** This enabled more objective, strategic decisions.
- **Design of a family protocol:** Clear rules were established to separate family matters from business matters.
- **Succession plan:** They identified a successor within the family and trained that person to take over leadership within three years.

Results within two years:

- 20% increase in operational efficiency.
- Resolution of key family conflicts.
- Improved perception among customers and investors thanks to a more professional structure.

Conclusion: Governance as a driver of sustainability

Corporate governance is not just a tool for resolving internal problems; it is a strategic lever for ensuring the sustainability and growth of family businesses. By addressing pain points and adopting structured solutions, family businesses in LATAM can strengthen their position in highly competitive markets and protect their legacy for

future generations.

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