



# Keeping it in the family

With a considerable majority of Maltese businesses being family-owned and run, the issues of regulation and succession are finally being given their due importance through the introduction of the Family Business Act. But what exactly does the Act consist of, and what are the tangible benefits it will provide to a family business?

**Marie-Claire Grima** learns more.

**T**he family business in Malta is the motor of the economy. Although this may seem like a platitude, it's an undeniable fact – as many as 98 per cent of all businesses in Malta are SMEs, and the vast majority are family-run, accounting for about 80 per cent of local jobs. However, their lifespan usually isn't very long – due to a combined lack of succession planning and financial planning, many family businesses do not manage to transfer their family business beyond the second generation. Only around

20 per cent of family businesses in Malta have a robust, documented and communicated succession plan in place, a figure which is actually higher than the global average of 15 per cent. But when one considers just how much of Malta's economy hinges on successful family-run companies, it's undeniable that there's a lot of room for improvement.

Enter the Family Business Act, which is there to assist in the regulation of family businesses in Malta and their transfer from one generation to the next,

as well as encouraging businesses to improve their internal organisation and develop a succession plan for the long-term running of their business. "This new legislation has been designed after hearing the concerns of family businesses and listening to those who care about their future," says Dr Nadine Lia, the Regulator for Family Businesses. She states that many small businesses fail not because of external forces such as competition or the economy, but because the owners fail to have a long-term plan when it comes to the future of the business. "It is not their success but their succession that is their Achilles' heels. It is not their lack of creativity but their lack of discipline that fractures their governance. Therefore, the primary aim of the legislation is to encourage the regulation of family businesses, their governance and the transfer of the family business from one generation to the next."

Dr Lia says that one of the main challenges of the Family Business Act, which was drafted after endless research,

consultations with businesses, collation of statistics and discussions with stakeholders, was defining what a family business consists of. Creating the right definition entailed deep considerations on the core dimensions of what constitutes a family, looking at family logic, dimensions of family continuity, family values and family relationships and their business models. In the Act, a family business can qualify for registration if, in the case of a public limited liability company, the majority of the shares including the rights are held, whether directly or indirectly, by at least two owners who are family members within the same family, with at least one family member formally involved in the general governance, proper administration and management of the company.

Following registration, family businesses will be eligible for benefits available under this legislation which include any assistance or relief granted in terms of the Duty and Documents Transfers Act, Malta Enterprise Act,

Business Promotion Act and in terms of any other law as may be prescribed by regulation. "Registered businesses will also be able to brand themselves as official family businesses – something of a unique branding," says Dr Lia.

A company that certainly holds its family legacy dear is Smart Supermarket, one of Malta's oldest establishments of the kind. Director Matthew Grech belongs to the third generation of the family. "My grandfather Carmelo Grech was something of an entrepreneur and was involved in a number of business ventures. In the early 60s, he founded the Smart Shirt textile factory which was later transformed into Smart Supermarket in 1981. He then passed the business on to his children, the second generation family members. Over time, a number of share transfers occurred resulting in the majority of shares held by two siblings, Lawrence Grech and his sister, Helen Ciantar. Today, the third generation members are also involved as directors within the company," says Mr Grech.

He believes that while no two companies are the same, be they family-run or not, family businesses tend to re-invest most of the profits of the company back into the business rather than paying them out through dividends. "Generally, this is the result of a culture of legacy and a commitment towards a long term vision," Mr Grech says. "Another way family businesses are different is the way that they ➔



**"It is not their success but their succession that is their Achilles' heels. It is not their lack of creativity but their lack of discipline that fractures their governance."**

Nadine Lia, Regulator for Family Businesses

# Focus



bring about unique challenges with regard to succession; in part due to the unique dynamics of every family business and how these affect the succession process, and in part also due to the actual process of transferring the shares between family members and the various implications this may have, such as stamp duty on the transfer.”

Mr Grech asserts that the Family Business Act comes into play to ensure a proper and safe transition of the business with minimal disruption to the employees and families they support, business partners and ultimately the customers. “This legislation could also be an enabler for smaller, cash-tight businesses with a relatively high asset value to transfer the business, who may have otherwise not done so due to costs such as stamp duty.”

“The benefits of the Family Business Act are truly appreciated and welcomed,” adds Mr Grech. “In all honesty, before the Family Business Act emerged, I hadn’t really thought about

such benefits since we have not yet started succession planning. When the time comes for our succession planning and implementation, the Family Business Act will make the process easier and less costly; with incentives such as reduced stamp duty on transfers and possibly with other available grants.”

The restaurant and catering business is another arena where family-run businesses are prolific. One of these is the highly sought-after Tartarun, which opened its doors in 2009. Before that, it was a restaurant called Harbour Lights, which opened in the early 90s, owned by brothers Joseph and Saviour Schiavone. After a successful run of nearly two decades, Joseph saw that the restaurant had additional potential, so he bought his brother’s share, in order to be able to pass it on to his sons, James and Stephen, who transformed it into Tartarun. Tartarun was soon followed by its sister restaurant, a prestige dining project in Smart City called Wejla. Saviour and Joseph remained partners in the kiosk right opposite Tartarun, which is still named Harbour Lights.

“Family-run businesses think long-term and are happy with a consistent small profit, rather than feeling pressured to make money as fast as possible,” says James Schiavone. “Reputation is given top priority, which tends to be noticed when handling complaints and compensation. There’s also consistency over a long period of time – if a family member runs the kitchen, although

the staff may change as the industry suffers from high turnover, the product remains the same.”

“When seas get rough, a family-run restaurant tries to fight the storm as opposed to just closing and investing somewhere else. On a negative note, unless the family conducts itself professionally in certain areas such as distribution of work and salaries, tensions can lead to unnecessary litigation. However, having a good amount of family-run restaurants is ideal for the local restaurant scene as well as Malta’s tourist product. Preserving and motivating families to keep their business going is beneficial for both parties.” **BA**

**Find out more about the Family Business Act and how it can help your company at [www.economy.gov.mt](http://www.economy.gov.mt)**

**“Family-run businesses think long-term and are happy with a consistent small profit, rather than feeling pressured to make money as fast as possible.”**

James Schiavone, Founder, Tartarun



**“When the time comes for our succession planning and implementation, the Family Business Act will make the process easier and less costly; with incentives such as reduced stamp duty on transfers.”**

Matthew Grech, Director, Smart Supermarket



**Efficient. Flexible. Holistic.**  
*Medavia is the true one-stop-shop in aviation.*

*Mediterranean Aviation Company Limited had its beginnings in 1978. Set up as a dedicated link between Europe and the remote airfields of the oil and gas industries in Northern Africa. Today known as Medavia, it has evolved into a world leading specialist aviation organisation.*

*In addition to offering second-to-none cost effective MRO works, the Company provides a variety of other services including: Aircraft Charter Brokerage, Aircraft Operations, Ground Handling, CAMO as well as Part 21J Design Engineering. Medavia offers aviation solutions tailored for individual customer needs.*

[medavia.com](http://medavia.com)

Find us on

[info@medavia.com.mt](mailto:info@medavia.com.mt) | 00356 2249 0000