

Family-Owned Businesses:

Is There a More Difficult Type of Business To Run?

The Facts

- *Average life span for an FOB is less than 25 years... which just happens to be the average tenure for a founder.*
- *Fewer than 33% of FOBs make it to the second generation*
- *Only about 15% make it to the third generation and just 3% beyond that.*
- *By the year 2005, virtually all FOBs will have lost their primary owner to retirement or death.*
- *Managing growth can be especially challenging in a family firm, and more and more FOBs are turning to psychologists versed not only in psychology but in business consulting "... because the stakes are huge in terms of passing a business along from one generation to the next."*

- Time, 3.17.01

The Good News

Creating, building, and sustaining a family business is not only a fundamental American dream (over 20 million family businesses in the U.S.—92% of all U.S. businesses), but is also a powerful dream in most other modern capitalist economies (for example, over 75% of all U.K. businesses are family owned). The benefits of family businesses are manifold, genuine, and in many cases psychologically profound.

Consider WIIFF (What's in it for the family). A family business:

- ❖ Creates a heritage for the family and serves as a medium for perpetuating a family's history, traditions, pride, and core values and beliefs
- ❖ Serves as a powerful testimonial to the success and potency of a family
- ❖ Provides the ultimate career and financial safety net to one's children and grandchildren
- ❖ Offers participating family members greater independence and control of their fate than a more traditional career path
- ❖ Establishes a very special glue (a bonding material, as it were) that can hold a family together around a common set of interests, activities, challenges, opportunities, threats, milestones, relationships, and daily schedules
- ❖ Demonstrates to an entire community (and various sub-communities) that this is a family to be admired and respected
- ❖ Makes it more certain that individual family members will have the fullest opportunities as adults to "stretch" developmentally and to self-actualize
- ❖ Improves the chances that family members will be able to involve themselves in meaningful philanthropic activities and become pillars of their communities

• “More often an FOB will have collapsed or declined because of a failure to manage the complex and emotion-laden issue of succession.”

- **BDO Stoy Howard**
1999

• The four most supercharged inter-generational issues for family members in FOBs are the long-term vision; defining division of labor around management roles; money; and ownership.

• “FOBs account for more than 65% of all businesses in the world and are becoming more, not less, prevalent.”

- **Harvard Business School**, 2001.

• The preponderance of parents and, most of all, their children want their family business to continue to be held and run by the family. Continuity is a cherished value of the FOB culture.

• Only a minority of FOBs have a documented strategic plan and, historically, succession planning has been toward the bottom of their To-Do List.

- ❖ Makes it more likely that financial advantages, non-trivial net worth, and “security” will accrue to the family
- ❖ Provides greater stability and welfare for its employees and for the community in which it operates

The Bad News

The odds are very tough. The family head faces a daunting array of dicey challenges, many of which are never faced by the head of a public company. So, besides all the common competitive marketplace barriers and obstacles that confront all business leaders, the head of a family business must also contend with a parallel set of near radioactive, family-based issues that inevitably arise in family businesses. Consider the import—for *real* people in *real* families—of the situations and questions below:

- ❖ Most families prefer to create some version of an egalitarian family culture. However, in their *business* the family head must operate based more on meritocratic principles, which often demand that children in the business end up with different-sized roles. How does the founder or current head resolve this family vs. business paradox?
- ❖ Founders generally grow more conservative as they age and approach that time when they need to pass the baton to G-2 (i.e., the second generation), which is perhaps the most supercharged process of all family business transitions. How does G-2 handle this sensitive and supercharged issue *and* how do founders get out of their own way for the greater good of succeeding generations? How does the founder let go of his/her “baby”? How does the founder confront mortality (a.k.a retirement) under this stark set of circumstances?

(By the way, are we talking “family *dynamics*” here, or would it be more apt to say “family *dynamite*”?)
- ❖ Family “dynamics” (to put it politely) typically heighten and exacerbate problems and conflicts at work. In the business, how do the family head and involved family members handle such family

• *Successful continuity management is a complex and demanding womb-to-tomb process (literally), which requires great psychological skills and psychological finesse.*

- **Mark Brenner, PhD**
Chairman, LECG

dynamics as rivalries, feuds, jealousy, selfishness, rebelliousness, passive-aggressive behavior, playing of one family member off another, and so forth?

- ❖ Not infrequently, a fundamental charge for the founder and the founder's spouse is to rear their children into mature adults *and* into mature business people, as well. A tall order, to be sure. How does the founding couple navigate these waters? (Jack Welch didn't have to do that!)

Managing for Continuity: The Safest Approach

For better or worse, many of the most fundamental challenges that confront the family business head are psychological in nature. (This is not so different in kind from what a CEO in a publicly-owned environment faces. However, the "family-owned" dimension creates a multiplier effect on the psychological challenges that confront the head of a family business. Hence, the "Jack-Welch-didn't-have-it-so-tough" remark above!)

By examining the schematic below, you'll readily see why there is a critical need for *psychological savvy*, leadership finesse, and adroit relationship management skills to engage the ten fundamental levers that steer an FOB.

Managing for Future Generations: The Ten Levers Used To Steer a Family Business

Shared Vision & Values:

Regarding strategy, relationships, work ethic, money, and success

Shared Influence:

Across generations, among spouses, and among siblings/cousins and geared to individual capabilities

Valued Traditions:

That are characteristic of this family and set it apart from other families

***Receptivity to Learning
and Growing:***

Being open to new perspectives and new approaches; embodies a critical orientation that underlies mastering change and overcoming obstacles

***Investment in Relationship
Enhancement:***

The most robust families have traditions and mechanisms they use to play together and enjoy one another; these accumulated playful experiences serve as a buffer, especially during difficult times

Demonstrative Caring:

Open demonstrations of empathy for family members during good times and bad; making the clear statement, "You are important to me."

Mutual Admiration:

Earned by building trust, based on a track record of being consistently accountable and true to your word

Being There:

Especially at times of grief, failure, or embarrassment; how a family interacts with a distressed family member is highly correlated with long term family harmony and business success

Maintaining Space:

Respect for individual privacy and for the privacy of each family unit within the extended family constellation

***Circumscribed/Managed
Conflicts:***

Feuding members all too frequently bring in “reinforcements”. The family needs to know how to keep members, who are tangential to a given conflict, out of the middle and then address the conflict with finesse.

LECG’s Consulting Solutions for FOB Continuity

The ten levers cited above, then, must be embedded in a variety of concrete initiatives that need to be undertaken by any self-preserving family-owned business. Specifically, in the workaday life of a family-business leader and the family co-participants, real-life and practical solutions are required to manage for longevity. The kinds of solutions that LECG is called upon to deliver to FOBs include the following:

- ❖ Succession Planning and Assessment—Building Family Bench Strength and Steering Leadership Transitions
- ❖ Facilitating Family Meetings and Councils
- ❖ Conflict Resolution, Relationship Fix-Its, and Promoting Familial Harmony
- ❖ Creating and Perpetuating Family/Business Vision, Mission, Core Values, and Covenants

- ❖ High-Impact Coaching (for a variety of purposes)
 - Accelerating the development (and maturation) of key family members
 - Executive and Leadership Coaching
 - Addressing “Sudden Wealth Syndrome” and the substantial personal challenges it typically creates
 - Coaching for career development, satisfaction, and success
 - Derailment prevention
 - Solidifying Family Commitment to the Business
 - Ensuring That the Family Gets Hung-Up on Striving for Goals, *Not* on Power and Control
 - Building a Company Culture That Creates a Satisfying, High-Performance Work Environment
 - Developing Productive Teams
 - Adopting Effective Communication Techniques and Influencing Skills
 - Mastering Change to Produce Strategic Renewal of the Business