3 KEYS TO ADDRESSING UNCERTAINTY IN YOUR FAMILY BUSINESS

Should a family business attempt to apply the same levels of governance (processes, policies and customs) as other businesses? Of course it should – at a minimum!

All businesses need to apply governance processes to two groups – shareholders (owners) and directors (management). A family business has a third, overlapping, group which requires governance – the family (1).

Only 13% of businesses survive to the third generation and 4% to the fourth (2). Unmanaged or mis-managed family (especially generational) conflict will eventually result in a business splitting apart, thereby reducing family wealth.

Too often family businesses attempt to handle or avoid tensions using techniques such as exclusion and secrecy, divide and conquer, and bribery/ favoritism (1). These habits form easily over time in the absence of communication, but clearly make a recipe for ultimate disaster!

For many businesses, examining these behaviours would be painful and frightening, but would also be a heads up to a fork in the road. But they don't know what to do or where to start.

The solution is simple, but not easy. It can be broken down into the following three steps.

1. Vision mapping and gap analysis
    - Revisit (or establish) the vision and purpose, the values to work and live by, and the rules of the game (policies) for certain circumstances.
    - Generational family members should acknowledge and confront their fears.
    - Identify core competencies of family members when determining (or reallocating) roles and responsibilities. Recognise that the head of the family need not be the head of the business, and encourage family members to think as managers not as born heads of the business.
    - Create a one page plan to straddle the gap between current reality and the vision.
    - Hold a retreat with an external facilitator to celebrate, acknowledge and excite.

2. Systems for ongoing management of different priorities
    - Establish firm protocols for bringing the right people together at the right time to discuss the right things - owners' meetings, board of management (directors/employees), family council/family assembly.
    - Form a board of advisers with strong independent members.
    - Formalize and professionalize the decision making processes.
    - Remember the values as the foundation for all communication and action.
    - Make available an online secure library for the various groups to access information relevant to their needs, including strategic planning and regular reporting.
    - Hold an annual retreat, maybe one for each group, founded on the vision and purpose.

3. Eye on the exit strategy
    - Always be aware of the range of possible exit strategies – for individual family members and/or for the family business as a whole. Succession planning options should be top of mind from day one in the life (or the new life) of the family business.
    - Succession strategies need to be regularly discussed so that when the time comes an informed decision can be made by all.
    - For a business which has started to involve the next generation, set clear and specific milestones, timelines and dates for transfers of management and ownership authority.
    - Consider financing options.
    - Work out how to engage with non-family member employees in regard to the succession process.
    - Plan the roles of the senior generation if they are still to be involved in the family business.

The theme of the 3 keys is communication, within and between the stakeholders. No surprises.

A successful family business is achievable. Houshi Onsen, a hotel in Japan, was founded in 718 and is currently managed by the 46th generation.

A final thought:-

Does your family business have a have a bias towards surviving or failing into the next generation?

Acknowledgements

(1) Governing the Family-Run Business, John Davis – Harvard Business School, 4 Sep 2001

(2) Raakhi Jagga,indianexpress.com, 24 Nov 2010

(3) Governing the Family-Run Business, John Davis – Harvard Business School, 4 Sep 2001

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