tharawat magazine

for family businesses and entrepreneurs

Tharawat Magazine inspires family businesses and entrepreneurs with story-telling and best practice through every step of their journey as they start, grow, and sustain their companies.

Ten Critical Initiatives for Family Business Longevity

By **George A Isaac** -
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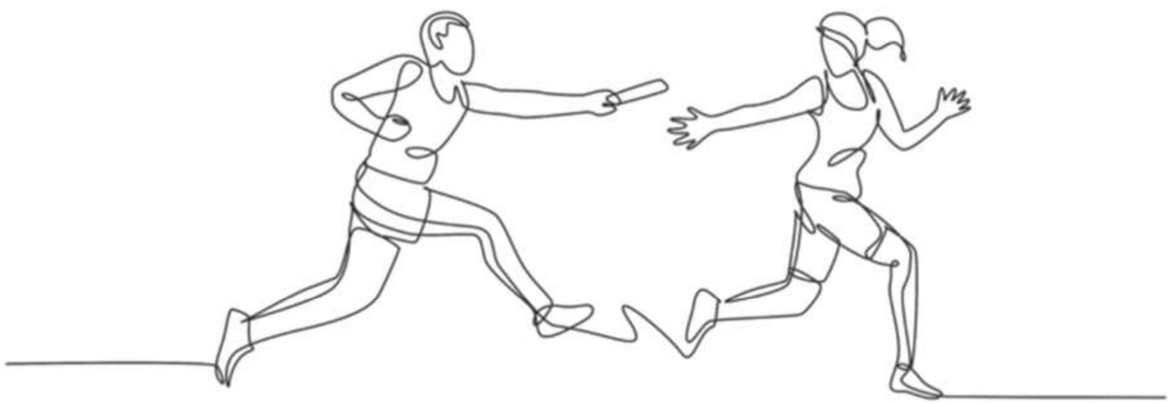

Editorial by George A Isaac

Your family business is your best vehicle for generating income, preserving wealth and serving the needs of your stakeholders. Yet, sustaining family enterprises for the next generation is a continuous challenge, with the majority not surviving.

It should not come as a surprise — yet it does for many family businesses — to learn that the most significant challenge standing in the way of enterprise longevity is family dissonance. Unhealthy family relationships are potential roadblocks to success that can perpetuate across multiple generations.

Need proof? Consider just one well-documented statistic: two-thirds of family businesses do not survive beyond the founding generation; only ten to fifteen per cent last into the third generation.

To Sell or Not to Sell

In planning the future of your family business, you are presented with two attractive yet incompatible alternatives: either maximise the company's value and sell it or retain ownership and grow the business to benefit future generations.

In reality, however, selling your company, even at maximised value, is typically a poor financial option. First, taxes will reduce the sales proceeds, often by about one-third. Second, the future returns from reinvesting the remaining proceeds of the sale in fixed income and equity securities will be paltry in comparison to the profits generated from the successful operation of your family company.

The bottom line is unless you receive an opportunity too good to turn down, you must take steps now to ensure that your family business will survive and thrive.

Roadmap to Success

In studying why most family businesses fail, I have identified two principal causes: poor business practices, and problematic family/ownership issues. Poor business practices include acceptance of excessive risk, outdated strategies, poor management, lack of good business discipline and absent or inadequate succession planning. Family/ownership reasons include unaligned shareholder objectives, problematic family dynamics, poor governance, unfair reward systems, and inadequate family liquidity. When the combination of problematic family dynamics and ineffective governance leads to poor business decisions, family business sustainability becomes fatally endangered.

To achieve multigenerational longevity in business, family leadership should consider adopting these ten critical initiatives:

1. Align the Ownership Group

Understand and *align* your family owners' goals (and desires). Individual and overall family needs as owners change over time, as do a company's business needs — often dramatically. Continue to adjust your goals to keep your family business on target, your ownership aligned and your business meeting its stakeholder objectives. Define how family members can enter or exit the family business. Creating a road map for family members to exit the family business is not a failure; it provides an equitable way to meet individual family member needs and assists in developing ownership alignment.

2. Develop Strong Governance and Oversight

Family businesses need oversight and independent governance to provide an appropriate balance between business management and family ownership. Family councils represent the family and address family matters associated with a family business. A board of directors represent the ownership and provides oversight of the business. Including non-family independent board members as directors or advisors is an important best practice. Agreeing and documenting key governance, policy, and decision-making issues in an owners' operating agreement often known as a shareholders' or partnership agreement is also important.

3. Manage Family Dynamics

Managing the family side of business is a critical task for the ownership group — often even more so than the business side. Several conditions are necessary to keep family stakeholders engaged and thinking effectively and harmoniously: assurance that their ideas are honestly considered; feeling connected to and well informed about the business; being fairly treated financially; and reassured by knowing that if conflict arises, a resolution will be achieved in a timely, respectful and professional manner.

4. Focus on Business Strategy

The business environment changes constantly for every business. A sure way to become irrelevant (and eventually nonexistent) is to assume that your existing strategies are always right. Regularly review and challenge your strategies. Conducting annual SWOT analysis (Strengths, Weaknesses, Opportunities and Threats) by product and market segment is an easy way to get started.

5. Invest in the Best Organisation

Your goal is simple: hire the best people you can afford, put them in the right positions, evaluate them fairly and reward them well for performance. Investing in people will make all the difference in the performance of your business. Of course, determining family member roles and authorities in the organisation can be sticky. Those decisions *must* be based on capabilities and work ethic, not birthrights. It's essential to separate and clarify the differences in family member roles as owners, board members and employees.

6. Manage Those Metrics

What you measure and what you reward will determine your results. Develop quantifiable performance metrics using input from people at all levels of your company. Align those metrics to support the business plan. Think of monitoring your business metrics as a compass or GPS system that will guide your team to business success and provide measurable data to recognise and reward positive results.

7. Commit to a Culture of Growth

Growth is necessary for survival. We all know that operating costs rise, business markets change and product life cycles get shorter. Plus, as a family grows, there are more mouths to feed. A culture of growth forces a business to be competitive and entrepreneurial. It fosters a strong management team and new products and services. It contributes to the delivery of solid value to customers, an expansion of the customer base, and viability of the business – in addition to increasing financial results.

8. Cultivate an Investor Perspective

Many family business leaders fail to look at their family owners as investors — a discipline they must adopt. Otherwise, they will fail to perceive and meet the changing financial needs of individual family owners. In turn, they might confuse the value of business returns on equity with those of realised shareholder returns. Remember, until shareholders receive cash, their returns are zero. Low levels of cash distributions mean lower shareholder-realised returns and liquidity, which can increase exposure to business "tail risks" and fuel problematic family dynamics.

9. Manage Liquidity

Family businesses have the same liquidity issues as non-family businesses. However, family ownership complicates the situation. For example, the death of an owner could create a significant cash drain on the business if it has to provide funds for estate taxes. Owner distributions to fund pass-through owner tax obligations or to provide financial benefits to owners can drain significant cash from the business. Both short- and long-term cash planning are critical for family harmony, enterprise longevity and growth.

10. Develop a "Living" Succession Plan

One way or another, a generational transition will eventually happen. Family enterprises without a succession plan often find their "best option" is the sale of the business, much to the disappointment of the family. Succession plans need to be agreed upon early, with both family and business issues fully addressed. Critical family issues include next-generation ownership participation and goals alignment, current generation retirement and estate planning and governance. Business issues include strategic planning, risk management and contingency planning, organisational development and stakeholder communications. Succession plans need to be periodically updated as conditions change within the family, the business and its competitive environment.

These core initiatives form a survival plan for your business — one that will generate tangible results. When implemented, they will improve your business decision-making and produce an informed and engaged ownership group. Together, you will foster a culture *today* that supports an enduring long-term and highly successful multigenerational family business for *tomorrow*.

George A Isaac is founder and president of GAI Capital Ltd., a family business consulting firm and author of an Amazon #1 New Release book, ***Your Business, Your Family, Your Legacy: Building a Multigenerational Family Business That Lasts***.

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