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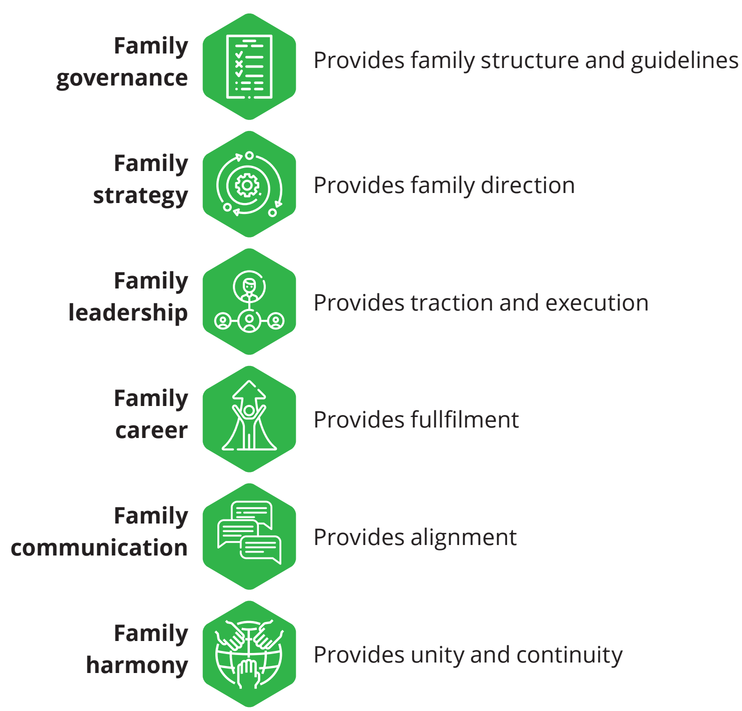
Family business leadership:
Why strategy and governance are imperative

Family-owned enterprises, like most companies, face an increasingly complex business environment. Fulfilling customer needs, changing technology, complying with regulatory requirements, and conducting day-to-day operations can involve many people and a myriad of activities—as well as present an array of opportunities and risks.

Leading family-owned companies recognize that seizing opportunities and meeting challenges take more than entrepreneurial drive, intuition, and even business experience. Among the requirements is a *family strategy* that considers a host of factors, including family goals, career development, communication, representation, and ownership issues. An essential companion to the strategy, a *family governance structure,* provides a framework and guidelines to manage these complexities and enable value creation and family harmony while reducing conflict and business interruption.

Alignment of strategy and governance with family members' goals can help the business navigate the complexities of balancing personal and business needs (figure 1). In a 2018 Deloitte Dbriefs webcast poll, only 10 percent of respondents indicated their company has a fully integrated family strategy.[1]

Figure 1. Family governance and leadership
Creation of family strategy, encompassed under a family governance model and aligned to the business strategy.



The stakes are high, the risks are real

Development of a strategy and governance framework typically supports a long view of family wealth preservation and growth. However, experience shows such a perspective is often lacking. According to the Family Business Institute, failure rates for third- and fourth-generation family-owned companies can be as high as 80 to 90 percent.[2]

Various factors can contribute to such collapses. Family members may have divergent, even irreconcilable views or goals. Absence of communication can allow for emotion to fester and inflame. Disagreements can arise over involvement with outside parties.

Unwillingness to look beyond the family can indeed be troublesome. Nearly 9 out of 10 participants in a 2018 global survey of family-run businesses conducted by the Deloitte Family Business Center agreed that business ecosystems enable organizations to innovate beyond their individual capabilities.[3] Yet more than half of respondents said they had rarely or never partnered with other organizations on innovation projects during the past three years.

One reason for this reluctance can be a lack of direction within the family unit itself. In instances where partnering does occur, family members can be overly protective of business niches, competencies, and technologies, which can cause issues with the other partner and decrease the effectiveness of the partnership.

This issue of communication is further supported by results from the 2018 global survey: Only 35 percent thought the company's business strategy was aligned to the values of the shareholders. Less than one-third of the family members agreed with the company's future business development plans. Less than 26 percent had a formal succession plan.

Families may revisit or create a strategy and governance plan in the wake of an event such as an elder's passing or a scion's coming of age. However, waiting to act until a generational transition or some other business disruption occurs can leave the family, business operations, and employees exposed to problems created by a lack of family-member involvement in the alignment of the family and the business.

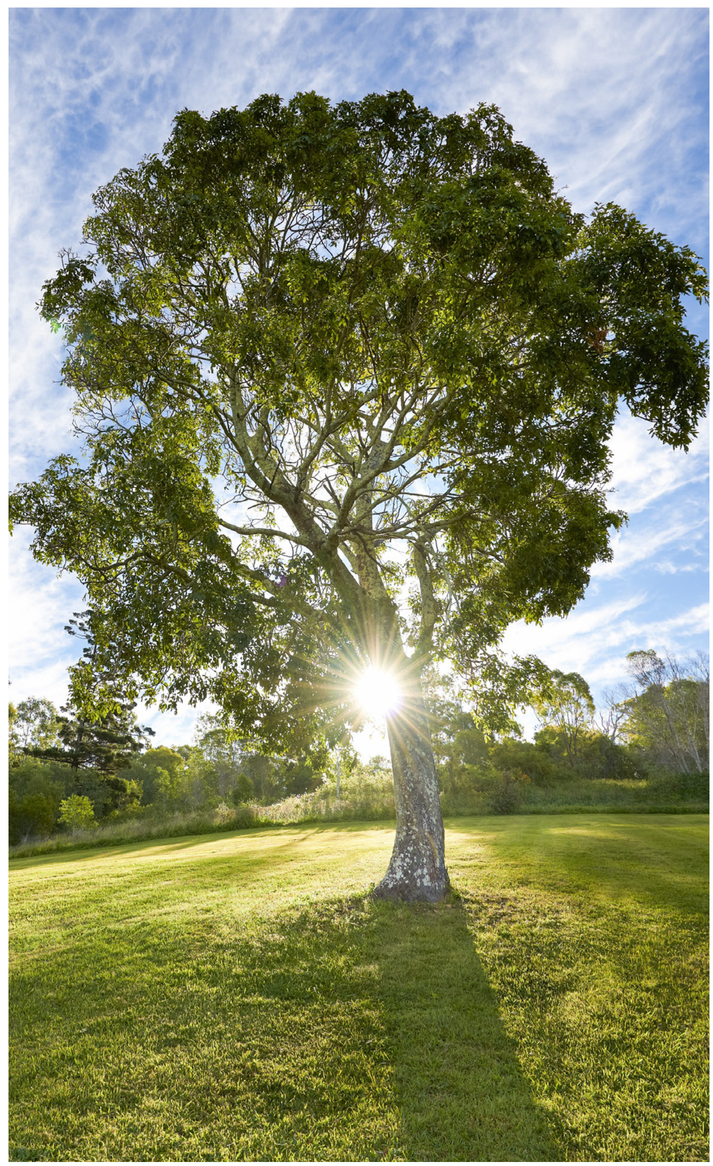
The value of strategy and governance

The success or failure of a family business affects both multiple generations of the family and the business ecosystem in which they operate. Against that backdrop, there are good reasons to start strategy and governance planning sooner rather than later. As the business grows, it often becomes more complex to manage. Multigenerational leadership and growing layers of emotional investment in the company can increase jockeying and discord. Continued expansion of family ownership to both those active and not active in the business can increase the possibility of misalignment of business and family goals.

Strategy provides the foundation on which to build a unified point of view on what the family represents and aspires to be. A sound strategy helps the family focus on family-related issues and their impact on the business in order to drive enhanced wealth creation for the family and addresses the family ownership issues. In the end, family ownership continues to build upon the family legacy, promoted both in the family and business, such that family ownership becomes the source of pride for both.

Strategy and governance together can handle the unique challenges of managing the family and the business and guiding them in an integrated manner that is accretive to both.

Once in place, a family strategy and governance framework will require updates to address changing conditions, such as new family members entering the business, just as a good business planning process requires periodic updates. It will also be important to address ongoing career development and planning, communication with new family members and spouses, and methods of securing liquidity as appropriate.



Strategy and governance in action

Two priorities of family businesses illustrate the importance of sound strategy and governance—multigenerational leadership and talent retention and acquisition.

A customized, multigenerational approach

A leadership pipeline is critical to the long-term success and legacy of a family business. Treating the business as a fiduciary responsibility is a key to creating a robust pipeline. Because family members have different goals, skills, and needs, a customized, proactive approach can help smooth the transition among multigenerational leaders.

First- and second-generation leaders are typically entrenched in the business. Leaders nearing retirement or contemplating pursuit of other ventures will want to set the stage for the younger generations. In these cases, a key is for both cohorts to have defined roles and reasonable expectations. Family businesses can nurture the aspiring leaders creatively by placing them in newly formed business units or giving them roles involving innovation. These approaches allow them to learn from the ground up without disruption to established operations.

Third- and fourth-generation family members can have divergent interests. Some may want to pursue access to capital to diversify the existing business. Such ambitions can open up new opportunities, but they also require careful oversight from family elders. In other cases, heirs may be very interested in the business but lack the capabilities or experience to take over. Other heirs may simply want the financial benefits.

In all scenarios, multigenerational leadership requires attention to the long-term goals of the business, individual roles and responsibilities, and the personal goals of family members.

A balance of talent development and family harmony

Family leaders want to prepare the next generation for success while creating a supportive culture for others in the organization. The good news is that family businesses, especially those that are privately held, can compete strongly for talent. Private companies tend to offer more flexible work schedules, diverse job descriptions, and a nurturing environment for entrepreneurial types to innovate and grow.

At the same time, family-owned private businesses can be emotional roller coasters for non-family employees. Non-relatives can find themselves in the middle of a family squabble. In some cases, they may be treated too much like family, with boundaries uncomfortably blurred. Or non-family members may see limited opportunities to grow within a family structure—a dynamic that can appear if they see family members start to promote themselves. Similar issues can emerge if family members are promoted too early.

The harmony of the family can ultimately affect the harmony of the employee base and the company's bottom line. A solid talent strategy considers the need for personnel moves, whether involving family members or others, to trickle down positively to non-family members.

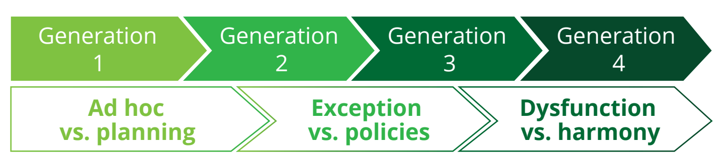
In addition, family leaders can explore how to plan for the business to self-perpetuate. One key consideration is the talent development process, including decisions on whether to advance family or non-family members.

Blending key family and non-family members in the leadership ranks can strengthen the organization and help shape its approach to the future. For this to occur, family members need a clear understanding of the business strategy and their own individual goals. Before non-family members are brought into the fold, especially at a leadership level, it is imperative to operate like a true business instead of a family that happens to run a business.

Time to focus on family business growth—and stability

For the reasons outlined above, the more a family company grows, the more it would likely benefit from a strategy and governance framework to guide decision making. Ad hoc planning may work when a company consists of just a founder and a few employees, but as its complexity grows, a strong organizational structure can mean the difference between harmony and dysfunction. This is especially true as younger generations join the business (figure 2). By investing the time and effort now in establishing a family business strategy and governance framework, then updating it regularly in the future, family-owned enterprises lay the groundwork for a sustainable organization in the long term and improve near-term family dynamics, employee experience, and performance.

Figure 2. Family and business life cycle
Where are you along the generational life cycle?



Consider some of these family elements:

- Career opportunities
- Family lineal rights
- Active shareholders
- Salary
- Wealth creation
- Rubber stamp board
- Transparency
- Career development
- Spousal rights
- Passive shareholders
- Family needs
- Liquidity
- Board governance/family council
- Family communication

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Endnotes

1. "Transition readiness: Family governance and leadership," Deloitte Dbriefs, September 27, 2018, https://www2.deloitte.com/us/en/pages/dbriefs-webcasts/events/september/2018/dbriefs-transition-readiness-family-governance-and-leadership.html.
2. "Family Business Facts," Conway Center for Family Business, https://www.familybusinesscenter.com/resources/family-business-facts/, last accessed October 25, 2019.
3. Mennolt Beelen and Mark Whitmore, "Adapting to an ecosystem-driven world," Deloitte Insights, May 31, 2018, https://www2.deloitte.com/us/en/insights/topics/strategy/next-generation-family-owned-businesses-emea-2018.html.

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