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Long-term goals, meet short-term drive

Global family business survey 2019

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Foreword

Family businesses are known in general to have a long-term orientation; yet fewer than 30 percent of these businesses survive into the third generation of family ownership¹. This raises the obvious question as to whether family ownership, in itself, is enough to ensure a business's longevity.

THE ANSWER, OF COURSE, IS NO—especially considering that family businesses today are buffeted by a variety of forces:

- **The family system:** Families seem to be growing larger and more complex; and events such as death, marriage, divorce and disputes create the potential for disruption.
- **The market/industry:** Businesses are operating amid unstable market conditions, changing consumer behavior, and the evolution of business ecosystems rather than traditional industry structures.
- **The broader social and political environment:** Businesses also face issues arising from factors such as educational systems, climate change, geopolitical volatility, and environmental degradation.

How are families in business organizing themselves to deal with these challenges? Are they really focusing on the long term, or are they too busy dealing with the continuous short-term pressures on their companies? How do they balance long-term objectives—such as keeping the business in the family and preserving family capital—with short-term challenges arising from disruption, digitization, and globalization? And how can current business owners ensure that their legacies are realized?

The good news is that the family business executives we surveyed for this report do indeed have a long-term orientation. They generally want to keep the business in the family, pass it on to the next generation, safeguard and grow their capital, and preserve their family traditions and legacy. The challenge is that this orientation may not be fully reflected in their short-term actions. It seems that many families in business may be deferring certain issues and focusing more on the urgent than the important. A “zoom out/zoom in” approach might help them establish a better connection between long-term objectives and short-term demands.

We hope that you find the views set out in this report informative and valuable. To discuss any specific aspects, please contact one of the Deloitte family business leaders listed at the end of this document.



Carl Allegretti
Global Deloitte Private leader

Executive summary

WITH THEIR WELL-KNOWN TENDENCY to take the long view, it might seem that family businesses would find it easy to balance short-term initiatives with long-term goals. Yet despite the focus by most on the longer-term future, family-run businesses appear just as prone to pursuing immediate priorities that, necessary as they may seem at the time, can fail to support the company's ultimate vision and objectives. Such a disconnect between long-term aspirations and short-term priorities can jeopardize the preservation of family tradition and legacy—as well as family capital.

How can family business leaders achieve the right balance between the short and the long term—in the context of the unique family, marketplace, and sociocultural dynamics that characterize the family enterprise? That's the question that this study, Deloitte's fifth annual global family business survey, explores by tapping into the views of hundreds of family-owned companies on the subjects of ownership, governance, succession, and strategy. Among our most notable findings:

- Of the 791 family business executives we surveyed in 58 countries, a little more than one-half believe their organizations are fit for the future in terms of ownership, governance, and strategy—but only 41 percent feel similar confidence in their plans for succession.
- While a strong succession plan can help align short- and long-term goals, many family businesses have not invested the time to create formal plans.
- Sixty-eight percent of surveyed executives intend to keep the business in the family; however, slightly more than one-third of

respondents would trade at least some measure of family control over the business for even greater long-term financial success.

- Family business leaders traditionally focus their strategy on a two-to-five-year time horizon, and often take a reactive approach to events as they happen.
- Good governance can be a critical value driver for family businesses, but effective governance structures should be tailored to the company and opened up to non-family members.
- Family members may lack alignment in their goals for the business—including goals beyond financial success.

To help family-run companies connect the present to the future, we draw on a framework developed by Deloitte's Center for the Edge that suggests a “zoom out/zoom in” approach to strategy development. This approach calls for leaders to envision what the market will look like in 10 to 20 years and what kind of business will last for the duration—and then to translate that picture into a very few select initiatives to pursue in the next 6 to 12 months. Equally important to consider is developing a shared vision by aligning individuals' goals with those of the enterprise, both financial and non-financial.

Alignment of vision and values is achievable for virtually any family business, provided they have the right discipline, governance structure, and communication practices in place. Families that can appropriately define both their 10- to 20-year aspirations and their 6- to 12-month initiatives—and maintain a clear line of sight from the one to the other—will stand a far greater chance of staying ahead of the game for years to come.

Fit for the future?

TECHNOLOGICAL ADVANCES and globalization are creating change at an unprecedented pace, quickly and fundamentally transforming business environments along with the rest of society. How hard is it for families in business to capitalize on opportunities in a world that is constantly changing shape?

Conventional wisdom holds that family businesses have a long-term view, often rooted in shared values, vision, and culture. They are also known to be flexible, able to adapt to events as they happen, and resilient in turbulent times. Armed with these characteristics, family businesses have continued to play a major role in the global economy even as

disruption has transformed nearly every dimension of the marketplace.

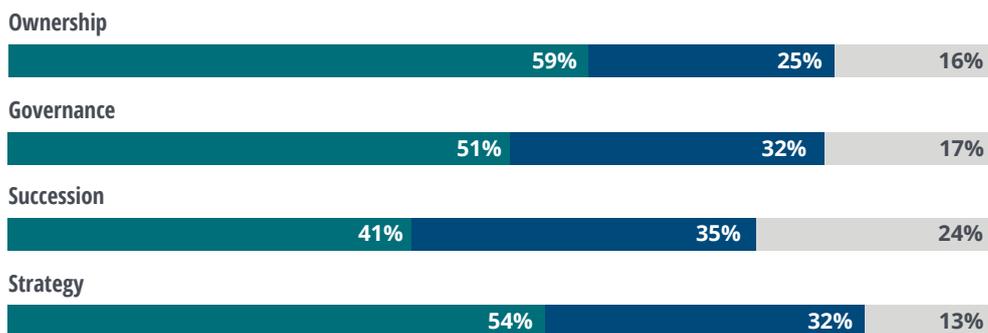
Given family businesses' long-term orientation, one might assume that they are facing the future with solid plans around business ownership, governance (both business and family), succession, and strategy. But our survey found that many family businesses lack clarity in at least one of these areas. For these businesses, it will be important to find ways to align stakeholder goals, develop a strategy that matches short-term actions to long-term priorities, and explore diversification in order to become sustainable for the long haul.

FIGURE 1

Respondents feel generally confident about their family business's preparedness for the next 10 to 20 years

How ready is your company currently to meet the challenges of the next 10 to 20 years in each of the following areas?

■ Ready ■ Neutral ■ Not ready



Source: Deloitte global family business survey, 2019.

Overall confidence gauge

Our survey asked respondents how prepared their business was for the next 10 to 20 years in four key areas: ownership, governance, strategy, and succession. The results show a large degree of confidence (figure 1), as more than one-half of the respondents said their business was “ready” for the future in three of the four areas (ownership, governance, and strategy). The exception was in succession: Only 41 percent said their businesses were ready for the future in terms of succession planning. This seems to raise an alert, as effective succession planning can function as a bridge between the present and the future, with the aims of the new leader aligned with the direction set by the former leader.

Technological advances and globalization are creating change at an unprecedented pace, quickly and fundamentally transforming business environments along with the rest of society.

TERBERG GROUP: INSPIRING THE FIFTH GENERATION

Established in 1869 as a blacksmith’s shop in the Netherlands, the Terberg Group of companies is now a US\$1 billion supplier of specialized vehicles, from terminal tractors to cars, offering both conversions and new builds. It operates 28 companies in 12 countries, and serves a global clientele².

George Terberg, chairman of Terberg Group’s board of directors, represents the fourth generation of the Terberg family.

The family statute

From a single shareholder in 1869, the Terberg Group’s ownership has grown to 60 family members who hold certificates in the company. Only family members aged 25 or older can become shareholders.

We asked George Terberg how the business keeps the views of all stakeholders aligned. According to Terberg, a key is to maintain shared norms, values, and standards through a family statute. “The family statute is very important in our family,” he said. “It describes how you treat each other and what you can expect from your family.

“Decision-making in a family business can be very emotional,” Terberg acknowledged: “but you can’t live on emotions. In the end, decisions are based on rationales and not emotion. Our structure enables us to act very quickly and decisively. Decisions are made by the Board; if an issue has greater impact, we also need the approval of the Supervisory Board and the STAK, which is a small committee representing the shareholders. Very important decisions, such as a large acquisition or the discontinuation of a large operating company, are made during the general meeting of shareholders.”

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Continuity as a family business

Ensuring the continuity of the Terberg Group as a family business is very important to the family. The Terberg family considers a family-held structure to be the best organizational form for the company—one that helps the business thrive—because their long-term vision helps the company avoid short-term pressures. As a family business, the Terberg Group is financed in a conservative way, making it resilient in the face of turbulence in the company's markets.

"We operate in several sectors and want to continue our expansion, both in the Netherlands and internationally, to ensure that the future of our family business is as solid as its past," Terberg said. "Autonomous growth is important, but the continuity of our family business is more important than growth."

Agility

Speaking about the Terberg Group's long-term vision, Terberg noted: "Our corporate strategy covers three years, not longer. Because we follow market trends and developments, and because we have a long-term vision for the markets we operate in, we are agile to adapt to fast-changing market environments if needed. We are very flexible in that. This was one of the lessons from the economic crisis of 2007 to 2011. You need to be flexible, not only from an organizational perspective, but also in terms of the geographical spread of your end markets, for example." He continued: "Disruption is not something new; it also happened in the past, but disruptive changes now come at a faster rate than ever before. We monitor markets closely and we are agile enough to adapt and continue to innovate. Sitting still is not an option."

The fifth generation

The Terberg Group is currently led by the family's fourth generation, but of the 40 family members in the fifth generation, two are also active in the company. "A 'fifth generation committee' is helping the fifth generation become committed, enthusiastic, passionate, and inspired family members," said Terberg.

Fifth-generation family members pay an annual visit to one of the Terberg Group's operating companies and get career advice, but they can't join the company automatically. Standards are high, Terberg explained: "Family members who want to join the company must have the potential to become leaders of one of the bigger companies. They must have a university degree or a degree from another higher professional education body. They must also have at least five years of work experience outside Terberg. After that, they can apply for a job, and we will make an assessment. These are high thresholds, but it is also a better way to guarantee the continuity of our family business. Ultimately, my generation is responsible for properly passing this company on to the next generation."

Calling on old strengths, finding new ones

Our survey offers a glimpse into how respondents' businesses operate and whether respondents believed their current practices are effective. By learning from these tendencies, perspectives, and priorities, family business leaders may find ways to strengthen their organizations and pursue longevity.

Agreement through alignment

Among families that believed that their business was ready for the next 10 to 20 years, one might expect strong alignment within the family about the road ahead. However, this was not entirely the case. When asked if their company's long-term plan was aligned with the objectives of the business as well as with all family members' individual and shared goals, only 35 percent of survey respondents fully agreed; and 60 percent partially agreed or did not agree at all (figure 2). This highlights a latent problem in many family businesses: family members' goals often conflict. Goals set the direction of the business, and a lack of commonality can create fertile soil for family disagreements.

The same pattern was visible in respondents' 10- to 20-year view of the development of their business (figure 3). Less than one-third said that there was full agreement within the family on this point.

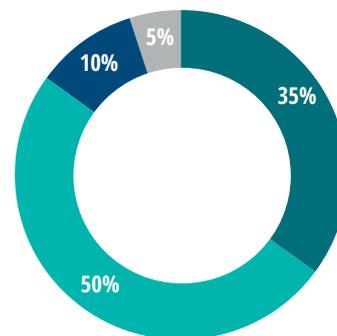
Our previous surveys have shown that the biggest threat to a family business seldom comes from outside, but more often arises from within³. To address this threat, family businesses often need not only a clear and easily understood strategy at the business's core, but also a clearly defined shared vision on which all family members agree—even across multiple generations with diverse perspectives and motivations.

FIGURE 2

Only 35 percent of respondents said that business objectives align with family goals

The long-term plan of the company integrates with the objectives of the business and the individual and shared goals of all your family members.

■ Fully agree ■ Partially agree ■ Disagree
■ Don't know



Source: Deloitte global family business survey, 2019.

Agility as a key asset

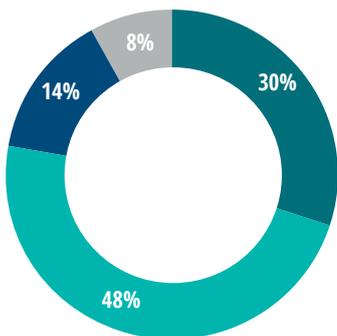
Key intangible assets often help a family business weather conflict and remain sustainable. Family businesses can take decisive action when called for, and many have a streamlined decision-making process that position them well to adapt to changing. According to 61 percent of our survey

FIGURE 3

Less than one-third of respondents say their families agree about the business's future development

Your family is in agreement about the future development of the company over the next 10 to 20 years.

■ Fully agree ■ Partially agree ■ Disagree ■ Don't know



Source: Deloitte global family business survey, 2019.

respondents, agility is the most crucial attribute of a family business (figure 4). They perceive agility, along with other distinctive features—such as innovation capabilities (39 percent) and financial position (32 percent)—as essential to sustaining their business.

Interestingly, only 21 percent of respondents believe that customer loyalty will drive their businesses' sustainability, even though many family businesses have traditionally relied on a loyal customer base. This may reflect a recognition that customer loyalty is not a given anymore: Digitization and the availability of ratings and other comparative data are rapidly changing the way most customers interact with companies.

Appetite for innovation

Given that 39 percent of respondents say their innovation capabilities are key to sustaining their enterprise, family business leaders should take note. This strength is one that can be used for greater advantage⁴.

Some family businesses are inclined to be risk-averse and unwilling to innovate, even when they have the resources to do so, due to concerns about the possibility of a negative outcome and a reduction in the family's wealth. However, family business leaders should beware of falling prey to a phenomenon known as the "ability and willingness paradox." Compared to non-family firms, research has shown that family businesses, although they usually have a lower impulse to engage in innovation, tend to achieve better results⁵. If a family business can overcome any initial reluctance to embrace innovation opportunities, it may reap the rewards of faster and more effective innovation than their competitors.

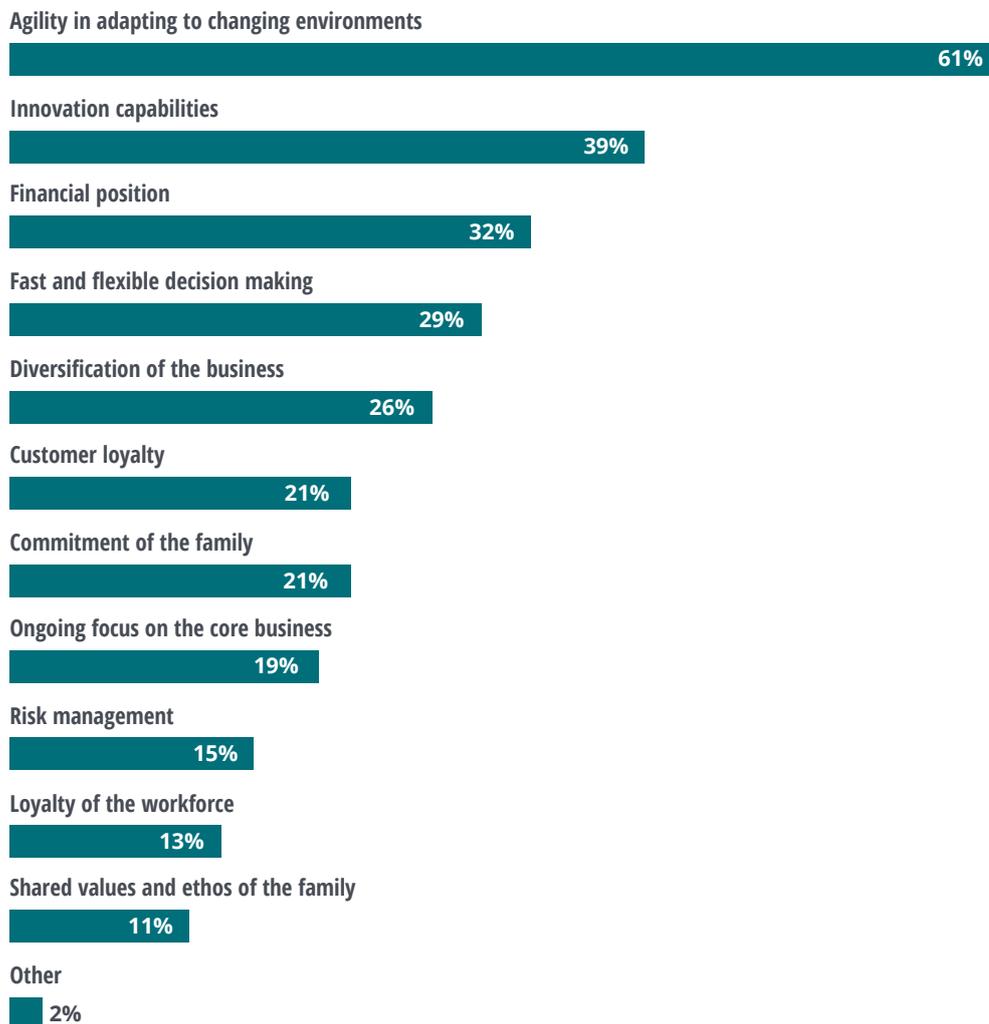
Exploring diversification

Only 26 percent of our respondents saw diversification of the family business as a way to sustain the business over the next 10 to 20 years. This is consistent with the idea that family business owners tend to protect the "core" businesses that represent their legacy, and may be reluctant to move beyond this comfort zone. However, some family businesses are breaking this mold by embracing a portfolio management approach to growth, and investing in more peripheral businesses (such as expanding by industry or geography). But although investing family business funds in a diversified portfolio can be beneficial, it can also be difficult if family members are not aligned in both vision and risk tolerance.

FIGURE 4

Agility and innovation are perceived as key to sustaining the business

What are the key characteristics that will drive the sustainability of your company over the next 10 to 20 years? Select a maximum of three from the following list.



Source: Deloitte global family business survey, 2019.

The impact of technology in the workplace

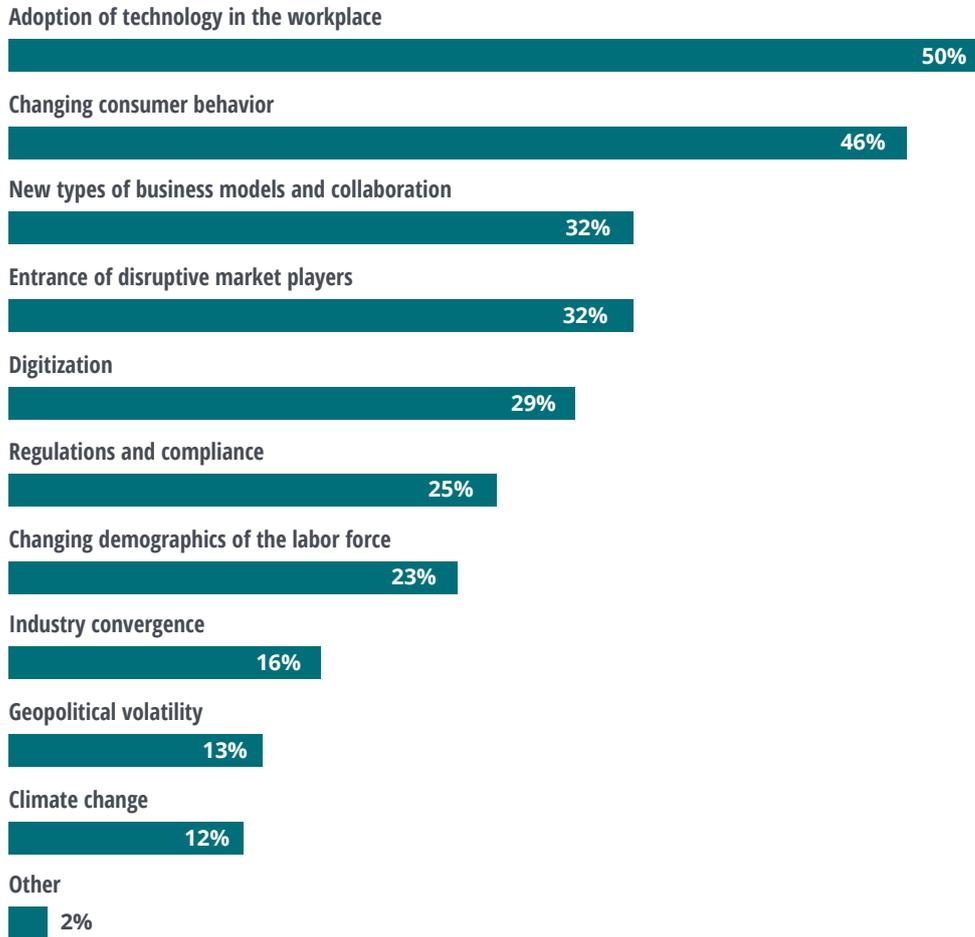
When we asked respondents what factors would have the biggest impact on the markets in which they operate over the next 10 to 20 years, 50 percent—one half—identified the adoption of technology in the workplace (figure 5). This points to the importance of embracing technological change to reduce the risk of falling behind market

competitors. For example, although family businesses traditionally rely on a loyal workforce, augmenting workers with artificial intelligence might add a dimension that could help companies reach new levels of efficiency and knowledge. To harness the full potential of artificial intelligence, a business may need to rethink fundamentally the way humans and machines interact in the work environment⁶—re-examining ideas about what kind of work must be done, who does it, and where it gets done⁷.

FIGURE 5

Technology adoption in the workplace is seen as the top issue influencing private company markets

Please select a maximum of three issues from the list that will have the most significant influence on what the market your company currently operates in will look like over the next 10 to 20 years.



Source: Deloitte global family business survey, 2019.

Some family businesses are inclined to be risk-averse and unwilling to innovate, even when they have the resources to do so, due to concerns about the possibility of a negative outcome and a reduction in the family's wealth.

SCM GROUP: INNOVATION THROUGH TRADITION

SCM Group, based in Rimini, Italy, was established in 1935 by Lanfranco Aureli and Nicola Gemmani. The company produces woodworking machinery and machines for advanced materials, such as plastic, glass, aluminum, marble and carbon. With a presence in 10 countries on five continents, SCM Group has about 4,000 employees and 29 business units⁸.

In 2001, Valentina Aureli became president and a board member of SCM Group's holding company, Ageco, and CEO of one of its member companies, SCM Immobiliare.

Maintaining balance

SCM Group is owned by two families, each of which holds 50 percent of the company's shares. How do they maintain a balance between the families' individual and shared goals and the interests of the business? Valentina Aureli explains: "As we are two families who own the company, corporate goals are always on top. Through our governance structure, we maintain the values of the company. Members from both families have the opportunity to join the company and specialize in a role."

As both families get bigger—and many fourth-generation family members have expressed interest in joining the company—things are getting more complex. That's why, Aureli says, "Family governance will become even more important than it is today in the next 10 years."

Ownership intention

SCM Group's leaders intend to keep the business in the family, but as Aureli points out: "With two shareholding families, we definitely need to be on the same page." She elaborates: "My family has always had a very international orientation, while the other family has a more regional view. But the two families are in very good harmony; there is a good dynamic."

Regarding ownership, Aureli says, "We are not willing to sell the company to a third party." She adds that this would only be a last resort—for example, if the company were to experience financial turmoil or become unable to respond to disruption. "It sounds good to have a private-equity firm or a strategic investor on board, but it is not the most sustainable solution," she says. "Their financial mentality is most likely not in line with our family mentality. We focus on the long term, whereas they are more focused on short-term return on investment."

Innovation and sustainability

Through the years, SCM Group has won many innovation awards. Aureli believes that innovation is a key element to her business's sustainability. "Innovation is based on our family tradition," she says. "It is a link between our heritage and the future. We leverage tradition to develop new products. We can reinterpret sources and knowledge from the past with today's insights and technologies. We stay close to our DNA."

Without innovation, Aureli maintains, SCM Group cannot offer added value to its customers. "We need to continue to recognize our customers' needs," she explains. "If we lose this dimension, it is impossible to maintain the right route to the future."

Family business pride

According to Aureli, the disparate family businesses are bound by an intangible tie. "Family businesses must be proud to be part of a common environment; they have so much in common. They face the same kind of new challenges, even in different countries. They all have the ambition to do better than what their father and mother did at their best."

Aureli also spoke about the value created by family businesses, which, she says, is "not the value that is underlined by financial institutions." She asserts: "Creating value in a family business is an ethical thing. It is something you care about. It is also a social responsibility. The financial assets are not important, but your heritage, what you can do for the region where you're from, what you do for your workforce, your reputation, honesty: That's important."

Matching actions to long-term views

Markets are in a constant state of flux, presenting companies with changes driven by factors such as consumer preferences, economic cycles⁹, and, more recently, disruptive developments. Given sudden shifts in immediate business demands, it can be difficult for family-owned companies to integrate long-term goals with short-term actions. Yet such integration can be vital to continued success.

LIKE ANY ENTERPRISE, a family business should have a clear sense of direction: without it, a business risks being consumed by the accelerating pace of change and disruption. The challenge is to maintain that sense of direction throughout the company's ongoing adaptations to the needs of the day—making sure that the path one chooses still leads to the desired destination.

Financial goals and disruptors

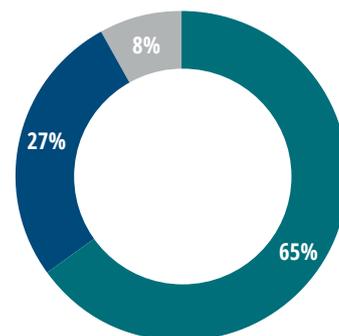
Their company's long-term value means more to family business leaders than short-term financial returns, according to 65 percent of our respondents (figure 6). This prioritization is reflected in their day-to-day decisions—including among first-generation business leaders. Rather than placing their sole focus on new endeavors that could build the business in the short term, even these younger family businesses tend to make decisions that focus on increasing long-term value.

FIGURE 6

For most respondents, long-term value is more important than short-term results

Which one of the following statements best describes the situation in your company when making day-to-day decisions?

- The long-term value of the company counts for more than meeting short-term results
- We sometimes need to give priority to short-term financial goals over the long-term value of the company
- We are under strong pressure to meet short-term financial returns



Source: Deloitte global family business survey, 2019.

Shaping short-term goals

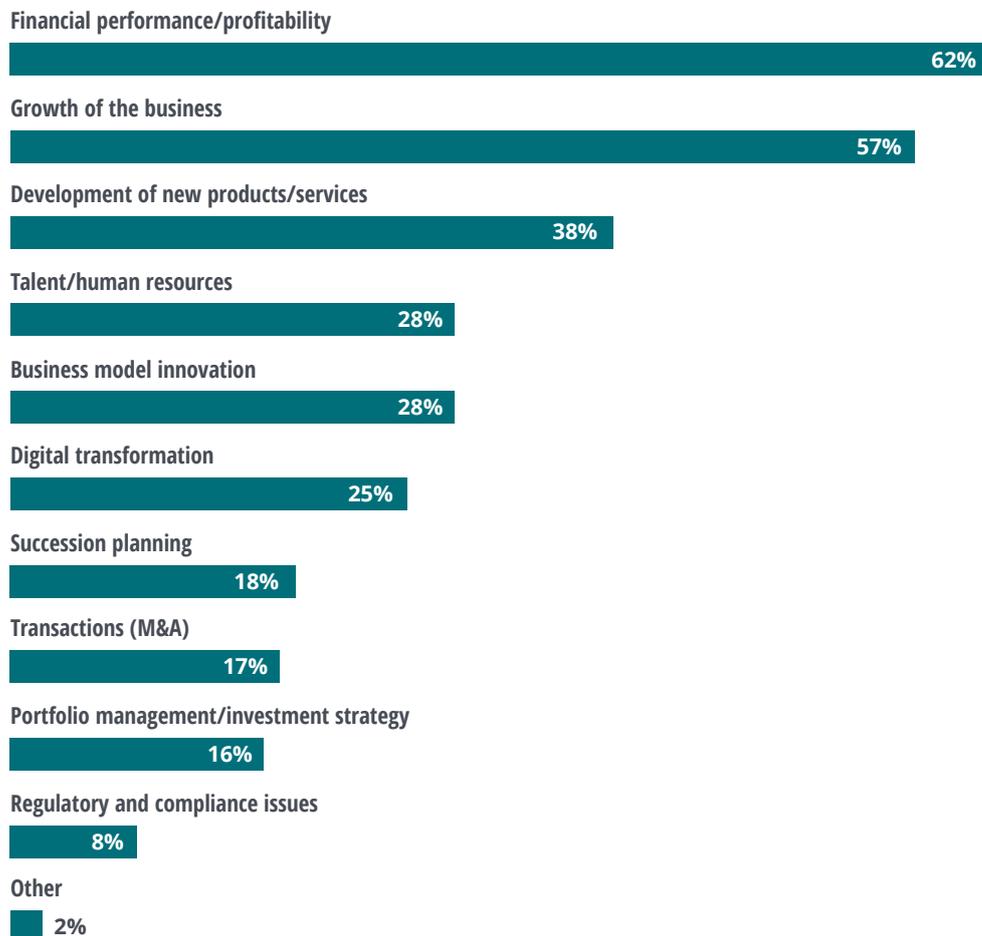
Despite placing more importance on long-term value than short-term financial returns, 62 percent of survey respondents told us that financial performance/profitability was their highest priority for the next 12 months (figure 7). Growth was also considered important, whether in the family's home country or abroad. This focus on short-term profitability and growth seems to run counter to most family businesses' long-term orientation,

suggesting a disconnect between their short-term behavior and long-term goals. Other short-term priorities include the development of new products and new services, which can be essential to firms' survival, economic prosperity, and competitive advantage. Business model innovation can also be a source of competitive advantage, enhancing the value of a family business. Examining a company's business model and finding new ways to operate or organize is important in a turbulent business environment. It is also important for realizing a

FIGURE 7

Financial performance and growth are the top two priorities for the next year

From the following list, please select the top three priorities for your board of directors over the next 12 months.



Source: Deloitte global family business survey, 2019.

long-term vision, as leaders should think now about what kind of company the business must become to thrive in the future.

Non-economic priorities

Family businesses often have priorities that extend beyond the economic goals that are typical for non-family businesses¹⁰. For instance, family harmony and family members' identification with the firm

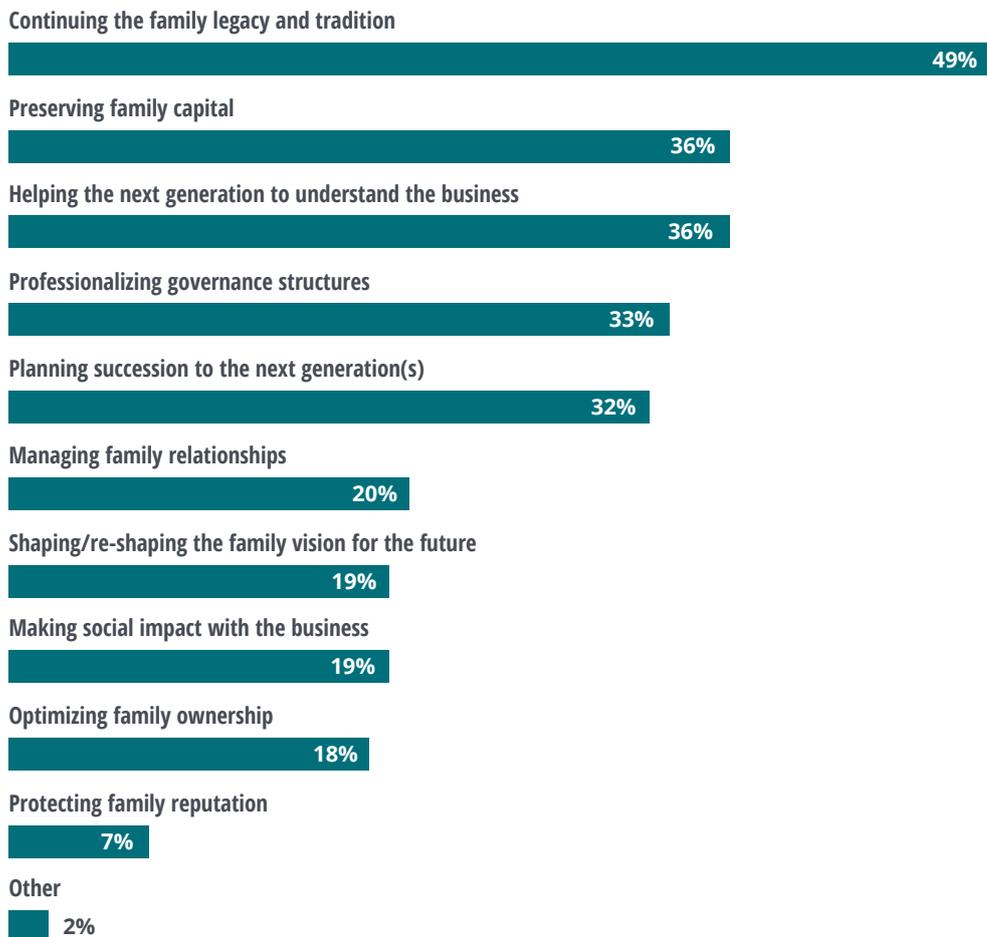
are two key non-economic goals that act as reference points for making decisions. While non-family firms tend to focus on maximizing their financial benefits, family firms also value their identity and cohesion as a family—a non-financial form of wealth often referred to as socioemotional wealth.

Respondents' most commonly cited long-term priority for their businesses was to continue their legacy and tradition (figure 8). Continuing a legacy, however, is easier said than done. It is a mission

FIGURE 8

Continuing family legacy and tradition is respondents' highest priority over the next 10 to 20 years

What are your family's priorities for your company over the next 10 to 20 years? Select a maximum of three from the following list.



Source: Deloitte global family business survey, 2019.

typically rife with emotions—the opposite of the impersonal forces of economics—but many family business leaders see it as a necessary responsibility for the generations to come. If family business leaders hope to preserve family ownership and business longevity, they should drive alignment between business strategy and family strategy.

Typically, family businesses are careful to manage the risk incurred by their strategic actions, since behind their strategy for growth is a strong desire to preserve the family’s capital over generations. This prompts many families to set up a family office as a vehicle for managing joint family investments in (for instance) philanthropy, stakes in other companies, or special projects such as private equity ventures. For many of these families, capital preservation and growth is a central goal that upcoming generations need to understand and embrace.

Preparing the next generation

Another urgent priority for family business leaders is to prepare the next generation for leadership by helping them to understand the business and encouraging their intellectual curiosity. Newly-appointed family business leaders have the vital task of keeping the business flourishing after they take over, preserving the family’s legacy and traditions while still—in what is known as the “continuity paradox”—enacting change when change is needed¹¹. There is no such thing as a “best time to start,” as an individual’s readiness for leadership ultimately depends on his or her personal development. However, preparing for succession well in advance and helping a successor to understand the business—ahead of time and in a calm atmosphere—reduces the potential for unexpected problems and disagreements. In addition, succession planning may increase the chosen successor’s “hunger” to become the next leader.

SOMIC ISHIKAWA: FUTURE-PROOFING WITH MENTAL RICHNESS

Somic Ishikawa, founded in 1916 in Japan, is a private company owned by the Ishikawa family. Both the third and fourth generations of the family are involved in the business today. An auto parts maker and one of the world’s leading manufacturers of ball joints, Somic Ishikawa is the main operating company of Somic Ishikawa Group¹².

Shogo Ishikawa, a fourth-generation member of the family business, sits on the board of Somic Management Holdings Inc., the holding company for Somic Ishikawa. He is also the general manager of the company’s management promotion department.

Setting priorities

In reflecting on Somic Ishikawa’s long- and short-term priorities, Shogo Ishikawa spoke about the company’s founding more than 100 years ago, emphasizing that it has always been a family-owned private company. He points out that this means the company has no pressures or demands from the stock market. Therefore, he says: “In the short term, we focus on both responding adequately to existing customer demands and maintaining financial strength, which sets the foundation for venturing into new businesses. Given that the auto industry is changing with the rise of digitization and the entry of new players, venturing into new businesses is an important strategic option for Somic Ishikawa Group’s continuity.”

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Ishikawa says that the company places great emphasis on ensuring that shared values are consistently aligned when discussing and working on short-term priorities. This emphasis also extends to the company's main long-term priority: that family members and non-family executives express their shared values in action. These values, he says: "for example, humbly studying the past, curiously exploring anything that we have never seen, and being courageous in making our own decisions"—are the "sources of our family business dynamics." With this approach, he says: "family leaders can take full advantage of being a family-owned private company."

Matching family goals to the future of the business

According to Ishikawa, his family regularly meets to "reaffirm that all of our family members have their own individual desires, and also that the business is our shared asset and that its success influences our individual and family successes." Family members' participation in these meetings is vital, as it is an opportunity for individuals to share their own thoughts on the business and listen to others. Ishikawa adds: "We leave aside any emotions and focus on the business. All this helps the patriarch to make a final decision on the future direction of the business."

Key attributes for the long term

The key to Somic Ishikawa's sustainability as a business, as Ishikawa sees it, is educating family members. "Unless we educate family members appropriately, how can we educate non-family executives and employees? Family members should have the same level of understanding of our family's shared values and style. We have evolved a system for educating young or new family members."

Envisioning the future

Regarding how the company's market may look in 10 to 20 years, Ishikawa says, "We are now in a time of unprecedented change, which none of our family members has faced before. It is obvious that digital innovations such as autonomous driving, connected cars, and MaaS [Mobility as a Service] have changed the landscape of our business." Citing changes in customer relationships and the company's customer base as examples, Ishikawa explains: "One of our major customers, who are a Japanese carmaker, has clearly redefined itself as a mobility-related services company. This has effects on our customer relationship; we not only work as a supplier of products that meet the required specs, but also work with our customers to translate ideas into new businesses. In addition, we may have new types of customers that are not carmakers in the not-too-distant future."

Ishikawa continues: "To understand what the market will look like in 10 to 20 years, I am always open to various thoughts and new ideas or knowledge." He gathers this input by speaking with an external network that includes the company's customers, other auto parts manufacturers, experts outside the auto industry, academics, government bodies, and consultants.

Preserving wealth

Ishikawa considers the preservation of his family's wealth very important. "To me, 'family wealth' is more than monetary wealth," he says. "It is the mental richness that comes from a combination of monetary wealth and family bonds. To keep this mental richness, we have the following process. Every single family member is given a challenging opportunity in the business and is responsible for the outcome, while the other members support him or her and sometimes give constructive criticism. This creates an environment in which you sense being connected to, and part of, the family."

Regarding the future, Shogo Ishikawa says: "Mental richness is of the utmost importance in driving the sustainability of our family business."

Sustaining the business: Four critical factors

Our research suggests that there are four interdependent dimensions that are critical to family businesses' ability to achieve their aims and sustain the business: ownership, governance, succession, and strategy. Below, we examine how survey respondents see the status quo in these aspects of their business, as well as their views and intentions in these areas for the long term.

Ownership

Family ownership defines a family business. But while a family business tends to remain within the family as it grows, ownership can become diluted over successive generations. Disagreements may arise among family members—and with outsiders—about a business's strategic objectives, and leadership may find itself unable to make effective decisions to keep up with the pace of change.

Two-thirds of survey respondents said that they expect their companies will be handed down within their families (figure 9). This intention is core to their long-term orientation. It is also clearly linked to non-economic goals such as sustaining family members' identification with the firm, cultivating emotional attachments to the family and firm (such as pride), and maintaining social relationships¹³. In fact, retaining family control and influence over the business—or ownership—is a non-economic goal in itself.

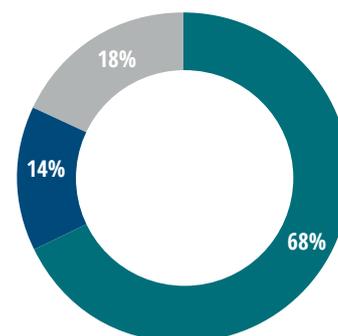
In general, families are less likely to sell or close their business, and tend to endure increased financial distress, if doing so means they can avoid sacrificing their non-economic or socioemotional

FIGURE 9

Almost 70 percent of respondents want to keep the business in the family

Is the ownership of the company expected to be handed down within your family?

■ Yes ■ No ■ Don't know



Source: Deloitte global family business survey, 2019.

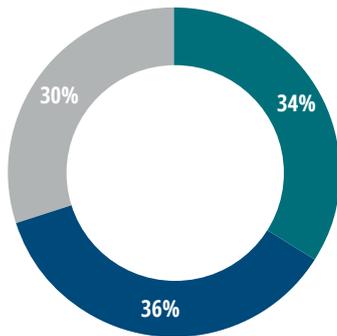
wealth goals¹⁴. But selling a portion of the business for greater financial success in the future is a different issue. Some 34 percent of respondents said they were willing to sacrifice company ownership to drive greater financial success in the long term—almost as many as those who said they would not (figure 10).

FIGURE 10

About a third of respondents would give up control over the family business in exchange for greater financial success

Would you trade family control for even greater financial success in the long term?

■ Yes ■ No ■ Don't know



Source: Deloitte global family business survey, 2019.

What many families may not realize is that achieving greater financial success, even at the cost of giving up ownership, can indirectly help support the family's underlying non-economic goals. Despite the fact that family businesses sometimes have internal cash flows that enable them to avoid relying on outside capital, most will need to look for alternative means of funding as innovation and product life cycles speed up: a shortage of funding can limit a business's ability to innovate and keep pace with the competition. Selling minority stakes is one way to bring in outside capital that can foster growth and innovation.

That said, one disadvantage of outside capital is that external shareholders sometimes have much shorter time horizons when it comes to return on investment, and could push a family into unwel-

come decisions to increase profitability. A way of mitigating this risk is for companies to consider selling minority stakes to other family businesses or family offices as an alternative way to attract capital. The advantage of engaging with another family is that families often have similar experiences and backgrounds.

Governance

A family business should strive for effective governance structures, not just for the business (through board governance), but also within the family. Family governance refers to the structures and processes families use to organize themselves and guide their relationship with their company. A well-designed and properly implemented family governance structure can help establish boundaries and create clarity. Formal governance structures can create an environment where discussions can be held about culture, values, and vision, which are essential if family members hope to agree on their company's direction. The benefits can include greater harmony among family members, a more focused business, and easier transitions between generations. However, to be effective, family governance should reflect each family's unique culture, dynamics and objectives.

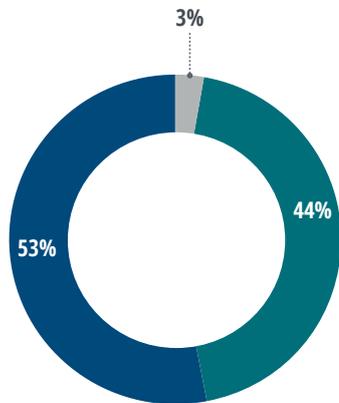
Respondents took a variety of approaches to family governance (figures 11 and 12). The use of family forums for this purpose is quite widespread, as are family councils (35 percent of respondents have formal councils, and 44 percent have informal councils) and family constitutions (44 percent of respondents).

FIGURE 11

Forty-four percent of respondents have a family constitution

Do you have a family constitution?

■ Yes ■ No ■ Don't know



Source: Deloitte global family business survey, 2019.

With respect to governance of the business, about one-third of the respondents reported that a majority of their board members were non-family members, or independent outside directors, while approximately one-quarter said that family members make up the majority of their board (figure 13). The rest of the respondents either did not have a formal board or said that their board was composed exclusively of family members.

While it is difficult to find the most appropriate board composition for a family business, families that have not opened up their boards to non-family members might consider how they might benefit from outside influence. Independent directors can bring valuable and diverse experience to a family business. Moreover, they do not have the same emotional and sometimes financial ties to the company that family members usually have, which can help provide a useful outside perspective. This perspective can be particularly helpful in deter-

mining approaches to succession planning, risk management, and compensation policies, as well as in mediating in conflicts that arise between the family and non-family management. At their best, independent directors can help the owning family focus on managing the business instead of on owning it.

In general, non-family directors find it attractive to work for family-owned businesses, although there may be a strong temptation for family members to rely on internal experience and judgment.

Succession

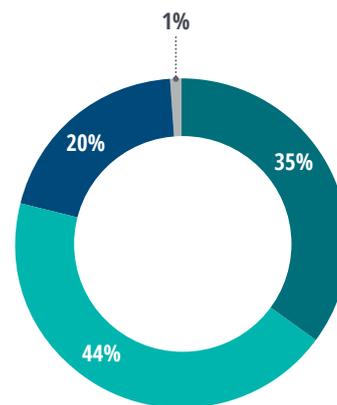
With regard to succession, 30 percent of survey respondents said that they would prefer to transfer both company ownership and management to

FIGURE 12

Thirty-five percent of respondents hold formal family meetings, and an additional 44 percent hold informal family meetings

Do you hold family meetings?

■ Yes, formalized ■ Yes, but informal ■ No ■ Don't know



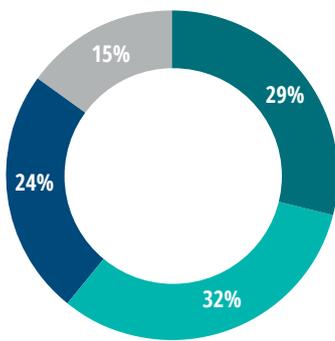
Source: Deloitte global family business survey, 2019.

FIGURE 13

About one-third of respondents said that non-family members make up the majority of their board of directors

In your board of directors, are there individuals who are not part of the family that owns the company?

- Yes, external individuals represent the majority of the executive board
- Yes, but the external individuals are a minority of the executive board
- No, our executive board is made up exclusively of family members
- Doesn't apply: we do not have a formal board of directors



Source: Deloitte global family business survey, 2019.

family members; 15 percent preferred to transfer management alone, and 20 percent preferred to transfer ownership alone (figure 14). Combined, these percentages mean that most respondents (65 percent) intend to keep succession within the family.

Somewhat distressingly, a large proportion of respondents had neither formal nor informal succession plans in place for key positions within the company (figure 15). Only 26 percent, for instance, have a formal succession plan for the CEO position, and even fewer have a formal plan for other C-suite positions. This is fully in keeping with the research on family businesses over the past 30 years, so it

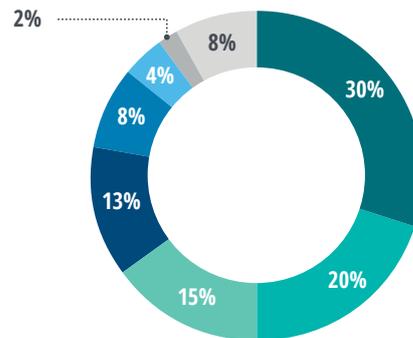
comes as no surprise. Many family businesses think they can do without a written succession plan for their leaders. In reality, however, many struggle with the succession process despite their long-term orientation—even though succession is critical for the future of a business.

FIGURE 14

Some 65 percent of respondents would prefer to keep company ownership, management, or both within the family

In your opinion, how should leadership succession take place in your company? Indicate your most preferred option.

- Passing the governance (management AND ownership) of the company to the next generation
- Passing the ownership of the company to the next generation
- Appointment of a non-family leader, retaining family ownership
- Passing the management of the company to the next generation (but not the ownership)
- Sale of the company to a third party
- Appointment of a non-family leader, giving away part of the family ownership
- An Initial Public Offering
- Don't know



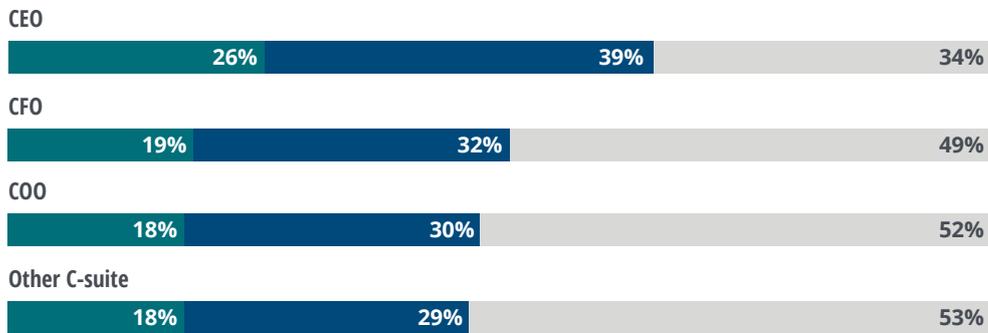
Source: Deloitte global family business survey, 2019.

FIGURE 15

Only 26 percent of respondents have a formal succession plan for the CEO position

Does your company have a leadership succession plan in place?

- We have a formal succession plan
- We have an informal succession plan
- We do not have any succession plan ready



Source: Deloitte global family business survey, 2019.

Succession planning is important for all families that intend to keep the business in the family—and for those that do not. Having a robust succession plan and/or process is an essential part of governance. But planning is not the only important step to take; equally important is engaging the next generation in the business. This can be done by educating younger family members about the firm’s vision and values, developing and reviewing their skills, giving them management responsibilities and/or ownership, and planning for a legal and tax-effective transfer of ownership, adjusting exit strategies as needed.

Strategy

Strategic planning is essential to profitable growth. Typically, it includes activities such as scanning the competitive landscape, making decisions about market opportunities, and reviewing options for financing growth. But family businesses should also incorporate family preferences and issues into their

strategy. The older the company, however, the more family members and interests are often involved—which can make strategizing difficult. This typically stands in sharp contrast to a young family business, for which strategy tends simply to reflect what the owner wants.

Fifty-three percent of our respondents said their family business has a formal strategic plan, but an additional 36 percent said that their strategic plan is informal (figure 16). Some 10 percent have no strategic plan at all.

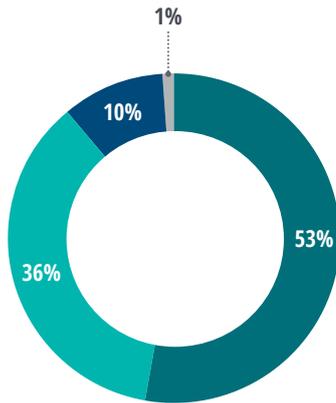
Of those with a strategic plan, formal or otherwise, 71 percent have planned only for the next two to five years, and another 6 percent only for the next year (figure 17), with the younger companies in our sample tending toward shorter strategic horizons than those spanning more generations. This relatively short planning horizon suggests that many family businesses take what can be called a reactive approach to strategy, seeking to sense and respond as quickly as possible to events as they happen.

FIGURE 16

More than half of respondents have a formal strategic plan in place

Does your company have a strategic plan in place?

- We have a formal plan
- We have an informal plan
- We do not have any strategic plan
- Don't know



Source: Deloitte global family business survey, 2019.

However, such an approach not only tends to spread company resources thinly across a multiple array of initiatives, but may give rise to initiatives that are themselves only incremental in nature¹⁵.

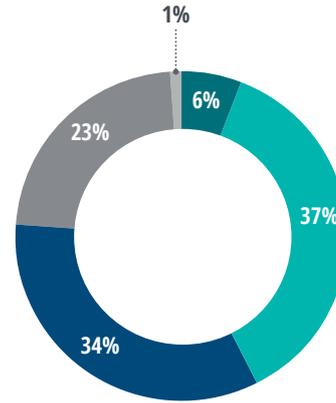
Family business leaders should combat short-sightedness in their strategy, especially given their typical long-term orientation in matters such as ownership, succession and legacy. It is important to translate their long-term view in these areas to forward-looking strategic plans that are rooted firmly in an understanding of where the world around them is headed. The challenge is not just to craft strategies that support the family's long-term vision for the company, but to make sure the strategy matches the family's shared beliefs—assuming these have been examined and aligned.

FIGURE 17

More than 70 percent of respondents say their strategy looks two to five years ahead

How many years ahead does the current business strategy of your company cover?

- 1 year
- 2-3 years
- 4-5 years
- More than 5 years
- Don't know



Source: Deloitte global family business survey, 2019.

Of those with a strategic plan, formal or otherwise, 71 percent have planned only for the next two to five years, and another 6 percent only for the next year.

BISSELL: PROTECTING A LEGACY OF INDUSTRY-LEADING INNOVATION

BISSELL Inc. has been a family-owned business for more than 140 years, ever since some spilled sawdust triggered the idea for a new sweeper. Today, the Michigan-based floorcare products manufacturer is a familiar household name in vacuums and floor cleaners, with a presence in 41 countries around the world¹⁶. Mark Bissell, Chairman & CEO of BISSELL Inc. and the great-grandson of the company's founders, credits being a family-owned company for a good part of its success. "It allows us to take a longer-term view, invest in the future and make strategic bets that we believe are in our best interest," he says.

Bissell has put protective measures in place to ensure that BISSELL Inc. remains a family-owned business. Over time, shares of the company were passed down to distant relatives who had little involvement in the business yet had voting rights in major company decisions. About 15 years ago, Bissell led an effort to recapitalize the company and concentrate ownership to a smaller group of active family members. His structure was designed to keep control within the family group and, with new stock transfer restrictions, eliminate the risk of shares being sold to third parties. Bissell says: "As a result of the recapitalization, we are better aligned and can focus on running the business and developing innovative products for our customers."

That's a good thing, because BISSELL Inc. is facing a number of issues that require unwavering attention. The recent introduction of US tariffs on Chinese-made goods has affected many appliance manufacturers, including BISSELL Inc., that count on Chinese suppliers for a wide variety of its parts. Longer-term trends like the rise of e-commerce and the growing adoption of smart appliances also offer opportunities in the way the company innovates and goes to market. "Staying at the forefront of the digital revolution is very important to us. We have been able to integrate new technology which allows us to better understand how our products are being used," says Bissell.

While BISSELL Inc. takes the long view, it also spends a great deal of time addressing short-to-intermediate term matters. Bissell says the company's strategic plans cover a three- to five-year time frame, but he brings together the leaders of each functional area on a regular basis to talk about near term opportunities as well as threats to the business. In recent months, they addressed options for bolstering their supply chain while the US-China trade talks continued, eventually finding a new electronics partner in Singapore. "It's an overused word, but 'agility' is really important now," Bissell says. "There are just some things, like the tariff situation, that you simply can't plan for."

Ongoing innovation is a primary area of focus. BISSELL Inc.'s new product pipeline is fed by insights the company gleans from consumer feedback and its global presence. For instance, the company recently came out with a "tangle-free" brush roll after hearing frustrations from pet owners trying to clean up shed hair. The development of BISSELL Inc.'s all-in-one multi-surface cleaner was sparked by an understanding that consumers in China prefer wet-floor cleaning. Instead of simply pushing increasingly dirty water around, the product constantly injects new cleaning formula on the floor as it mops.

BISSELL Inc. isn't just trying to see the future—it's trying to shape it in real time. That takes three ingredients, Bissell says: access to capital, talent, and a strong culture. Having the right capital structure enables BISSELL Inc. to make strategic investments or "hold our breath if we need to," Bissell says. The company is constantly looking to strengthen its core to bring fresh thinking to product development by growing and investing in its engineering capabilities. And as Chairman & CEO, Bissell spends a lot of time thinking about the company's culture. He calls it "the glue that holds the company together," allowing it to take risks and move quickly in a coordinated fashion.

As far as staying a family-owned company is concerned, Bissell doesn't see that changing anytime soon. "We could always sell the business, but we feel strongly that we can make a better return on our investment on our own," he says. "Our company legacy is a big part of our family's identity. It's a great company, and we have a lot of pride in it. We love what we do, and we really want to keep this going."

An alternative approach to strategic planning: Zoom out to zoom in

FAMILIES IN BUSINESS can use their tendency to envision long-term outcomes to form a high-level overview of what is expected to prove meaningful in their market in 10 to 20 years. This exercise is not about pinpointing future market sizes or growth rates, but about determining the market's probable future state in terms of factors such as customer value, technological developments, competitive landscape, and value chain disruptions. Leaders can use that vision to create short-term initiatives for the next 6 to 12 months—initiatives with the greatest potential to accelerate the business down the path to its long-term destination. The same approach can be used to create a shared vision of family goals and dreams. The key question here is: What kind of family do we want to be? This creative-thinking exercise should be applied beyond market success to include purpose, values, vision, and social impact. The aim is to force leaders out of their comfort zone and into a mindset where they can more systematically address a swiftly changing world.

Approaches to zooming out

Fifty-two percent of respondents have a formal process to envision their markets 10 to 20 years from now. This process is carried out by the company

board, by the family, or both. The remaining 48 percent said that they discuss the future development of their markets on an ad hoc basis.

How are families determining the state of their market 10 to 20 years down the road? Among respondents who have a process in place, 62 percent said they use a qualitative approach to discuss possible scenarios, 45 percent use a quantitative approach, and some use both approaches. There is no wrong or right approach; what is important is to somehow create a shared family view of the long-term direction of the active market for their business.

Zooming in

In contrast to zooming out, which can help a business develop the foresight to tackle risk, consider potential disruptors, stay on top of trends, and counteract uncertainty, zooming in is about seizing opportunities to strengthen a business and generate quick returns. Behind this approach is the idea of combining a stringent “future sense” with pragmatic opportunism, and making small bets on new opportunities as they arise.

THE ZOOM OUT/ZOOM IN APPROACH

There is an alternative to reactive strategy and incremental steps¹⁷. It's based on an approach that some of the most successful digital technology companies have pursued over the past several decades, and it goes by different names; Deloitte calls it zoom out/zoom in.

This method focuses on two very different time horizons in parallel and iterates between them. The first is 10 to 20 years: the zoom-out horizon. The other is 6 to 12 months: the zoom-in horizon.

Notice a key difference from the conventional approach—the five-year strategic plan that many traditional companies take. Companies pursuing a zoom-out/zoom-in approach spend almost no time looking at the 1- to 5-year horizon. Their belief is that if they get the 10- to 20-year horizon and the 6- to 12-month horizon right, everything else will take care of itself.

Key questions to ask

Zoom out

- What will our relevant market or industry look like 10 to 20 years from now?
- What kind of company will we need to be 10 to 20 years from now to be successful in that market or industry?

Zoom in

- What are the two or three initiatives that we could pursue in the next 6 to 12 months that would have the greatest impact in accelerating our movement toward that longer-term destination?
- Do these two or three initiatives have a critical mass of resources to ensure high impact?
- What are the metrics that we could use at the end of 6 to 12 months to best determine whether we achieved the impact we intended?

To accommodate a family's long-term vision and position the family business to achieve its long-term goals, leaders should focus on a very limited number of initiatives to run in the very short term—in the next 6 to 12 months—keeping a close eye on progress. In doing so, an external perspective is paramount. Family businesses should resist the temptation to look at the future solely from their own point of view, and also consider what the future might look like from (for instance) a customer, supplier or competitor perspective.

Keys to success in a family business context

In a family business, the success of both short-term initiatives and long-term strategies often depends on two factors: governance and communication. Effective governance systems can help facilitate communication among family members, aid decision-making and problem-solving, and help the business run smoothly over time.

Family business leaders should take the time to discuss long-view issues not only in every management meeting, but also in family council meetings—either informal or institutional. These discussions should include creating clear plans for succession. Leaders should also consider diving deeper into specific objectives in these meetings every six months.

Every family has different dynamics, and each will likely conduct these meetings in a different way. There are, however, several principles that can help all families have more effective conversations:

- **Openness:** Set clear agendas that give all stakeholders an understanding of what points need to be addressed. Explicitly address underlying emotional obstacles, which are common in family businesses and can limit the ability to move forward in agreement. Above all, facilitate open

discussions that allow each party to have their voice heard and recognized.

- **Boundaries:** An open discussion needs parameters to be productive. Thus, the mechanisms for managing the meeting, such as who has the authority to direct the discussion, should be agreed upon in advance.
- **Seeking an outside perspective:** Do not discount the importance of hearing fresh views from non-family directors, who can help family members see critical issues from an outside perspective. Take advantage of external advisors who can help discuss business goals without bias.

Family business leaders should take the time to discuss long-view issues not only in every management meeting, but also in family council meetings—either informal or institutional. These discussions should include creating clear plans for succession.

Connecting the present with the future

A family business that fails to take current demands into account could find the odds of success stacked against it. Yet it is imperative not to let the pressures of the present derail the business from its path to its chosen future. Family business leaders therefore should arm themselves with a “zoom out/zoom in” approach that ties short-term actions to long-term goals.

IT'S ALSO WORTH stressing that succession planning is a vital bridge between the short term and the long term. Many family business leaders seem to perceive succession as an event that they would rather not acknowledge or deal with—yet an orderly succession can be crucial to keeping the business on track for both the immediate and the far future. Consider putting formal succession plans in place, not just in terms of ownership, but for the CEO position and other roles at that level. When the next generation does take control, the new leader should balance the legacies and traditions of the past with the challenges of today and tomorrow.

Simply having the intention to hand down the company to family members is not enough to ensure a business's longevity. Many successful businesses can fall prey to fast-changing markets that no longer permit traditional approaches. For family businesses, remaining competitive means translating their vision for the future into a solid plan for action—and executing that plan with the vigor and commitment that have always characterized the family business.

For family businesses, remaining competitive means translating their vision for the future into a solid plan for action—and executing that plan with the vigor and commitment that have always characterized the family business.

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Contact us

Our insights can help you take advantage of change. If you're looking for fresh ideas to address your challenges, we should talk.

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