

## 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

# Family-Owned Businesses:

## Is There a More Difficult Type of Business To Run?

### 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 WIFF (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, TGCP

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.

## **TGCP’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 TGCP 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