TOMORROW'S CHALLENGES

A HEALTHY FAMILY ENTERPRISE IS A BALANCING ACT

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It is estimated that family-controlled businesses make up approximately two-thirds of the world's businesses. Their impact on global GDP and job creation is commensurate with this statistic. And yet, only 30% of family-owned businesses make it through the second generation.

Through our years of experience researching and working closely with business-owning families, we found that the most successful and long-lasting family businesses focus on five areas of health and well-being: individual, family, ownership, business as well as society and environment.

1) Personal health and well-being

Individual family members need to maintain their physical and mental health, if they are to contribute to the business and the wider family enterprise system in a meaningful way. Health isn't just staying out of the hospital; it includes good nutrition and staying active through sports and other physical activities. Many families even hire advisors to support their health and well-being.

Ignoring one's individual health could have serious consequences for a business. Take the case of a hands-on family CEO and patriarch/matriarch who has led his or her family business to success and continues to control day-to-day decisions. If this person falls ill, the entire business could crumble.

Feisal Alibhai was successfully running his globally operating family business when, at the age of 35, he was diagnosed with stage-three cancer. In minutes, he handed over the business so he could focus on survival. His experience led him to found Qineticare, the world's first

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family health office, helping other families proactively protect manage and improve their quality of health and wellbeing.

Indeed, “if you aren’t well on the inside then you can’t be a good leader”, John Elkann, Chairman of Fiat Chrysler Automobiles, once famously said.

2) A healthy family unit

Family harmony, trust, unity and more generally healthy relationships across the family are crucial aspects for achieving generational continuity and ensuring family enterprise longevity. Clear family governance in areas of conflict management, decision-making and feedback, all based on the alignment of family values, is essential.

There are countless high-profile cases of family feuds that have not only ripped apart the enterprising family but also disrupted the business. No matter if it’s the Koch brothers’ famous legal fight back in the 80s and 90s, or the legal action taken by Frank Stronach, the billionaire founder of Magna. He sued his daughter Belinda, his handpicked successor and the current chair and president of The Stronach Group (as well as her children and others) in the Ontario Superior Court for $520 million. This was for alleged misappropriation of company funds and for locking him out of the family’s horse racing and betting empire. The case was settled in late January 2020. But the damage was done.

The enterprising family should establish a clear family vision articulating what they would like to achieve together.

3) Healthy family enterprise ownership

Having an ownership group that is emotionally connected, well-informed and capable of taking responsible decisions – in the interests of the various stakeholder groups – is a major asset of family enterprises. However, that requires a strong ownership governance, discipline and an open and collaborative exchange between the owners.

One of the key advantages of family-controlled businesses is a highly concentrated ownership structure, allowing for effective and efficient decision-making in times of change. However, if the ownership group’s decision-making ability is impaired by conflicts or other challenges, it can stifle the business.

Healthy ownership means that there is a clear ownership vision and strategy for the organization, which takes into account the family’s values as well as the business needs and priorities. Owners come to act as stewards to the business, its employees and its customers. Raising the next generation of responsible owners who feel a sense of duty and responsibility, but also privilege and pride, is critical. Allowing to grow into a position of being emotionally connected to the legacy business is of vital importance.

Healthy ownership also takes a more long-term and “patient” approach, trying to stay away from what is sometimes called the “shiny object syndrome”, that is getting distracted or lured into short-term achievements, neglecting the big picture.

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4) Organizational performance

Running a high-performing and profitable business is essential for enterprising families – especially if they are growing in size over time – to ensure wealth preservation and, ideally, growth.

Running a high-performing business requires disciplined leadership and management and world-class governance on all levels – ownership, board and top management. It is essential that these different levels know exactly what it is they are supposed to do vis-à-vis the other levels. Having a clear definition of roles and responsibilities of owners, board members and the top management team is paramount to ensure long-term success.

Other essential factors include, but are not limited to strategic foresight, innovativeness, financial excellence, as well as a strong talent management and succession planning – both family and non-family talents.

For performance to weather times of transformation it is also of critical that family businesses are both resilient and adaptable. Resilient, because they will need to hold on to their long-term plans and strategies. Adaptable, because they will need to embrace agile and entrepreneurial traits, scan the market environment and understand the big global trends that might affect their industry and become a threat to their very existence.

5) Societal and environmental impact

A growing number of today's enterprising families want to leverage their assets as a force for good. It can be a tough choice to de-invest from the core business, but many family enterprises are doing it. Another approach that we are seeing is that a growing number of enterprising families are re-evaluating their core business models and start transforming them into more purpose-driven ones.

Why? The old model – embodied by historic business moguls like John D. Rockefeller – saw entrepreneurs getting rich on businesses that were often harmful to the environment or society, like oil, and then using their philanthropy to offset the harmful effects of their activities. It was akin to committing a 'sin' and then confessing in church.

Today, this mindset is passé. Businesses have for some time now been de-investing from many of the most harmful industries. Leaders are finally focused on doing less harm and doing better through activities like advocacy, impact investing, corporate social responsibility, sustainable development goals and philanthropy.

A good balance between these separate layers is just as important to helping the family enterprise system flourish across generations as good leadership at the top.

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