The Ten Hidden Arts of Successful Business Families

The basic principles of family business success are well documented. To sustain its company into the fourth generation and beyond, a family must dig deeper.

By John L. Ward

"Shirtsleeves to shirtsleeves in three generations." So goes the popular adage about family businesses, bolstered by oft-cited statistics that only 20% of family businesses make it to the third generation and just 13% last through that generation (from a 1987 study published in J.L. Ward, Keeping the Family Business Healthy, Family Enterprise Publishing). Nonetheless, a growing body of academic research worldwide documents family firms' superior performance.

All firms face growing competition, unpredictable market changes, and the vulnerabilities of globalizing industries. On top of these challenges, family firms must address family rivalry, later generations' indifference, variable family-member competence and rocky successions. And older business families must deal with death taxes, growing membership and the need to teach younger generations about responsible wealth management.

Yet throughout the world, successful multi-generation business families remain a powerful economic force. What can we learn from them?

The fundamentals of success

There are three well-documented fundamentals of family business success:

1. An active, independent board of directors.
2. Regular family meetings for engagement, education and bonding.
3. A constitution articulating the family's purpose and values, policies to regulate family practices, and expected roles and responsibilities.

The ten hidden arts

Beyond these three foundations of success, I have observed ten "hidden arts" that are key to the success of long-lasting family businesses.

1. Skill at resolving paradoxes. Negotiating complex family business issues presents many ostensible contradictions, such as balancing individual freedom with collective commitment, embracing tradition and change, celebrating the past while focusing on the future, and respecting individual differences while forging shared values and vision. The most overarching dilemma: balancing the interests of the business with those of the family.

Successful families don't hide from these dilemmas. They discuss them fully and seek difficult compromises. But they also go beyond compromises to develop true win-win resolutions, often satisfying two polar principles simultaneously. For example, they may conclude that individual creativity is cultivated best by a base of communal support -- and that loyalty to a group is most genuine when one has the freedom to choose.

Maintaining a focus on the long-term future also helps families integrate solutions to dilemmas into a common purpose.

2. Focus on process. A family constitution, fundamental to family business success, can anticipate potential problems and promote family unity and commitment. But no matter how comprehensive a family's constitution, charter or code of conduct, new issues will inevitably highlight the documents' gaps or inconsistencies.

Thus, while successful families constantly try to perfect their documents, they focus even more on communications, problem solving and decision-making processes. They put challenging questions on the table to test and grow their capabilities. They assess the success of past solutions to draw lessons for the future. They know that skills and trust grow most through the resolution of new challenges.

3. Human resources committee. Developing and selecting the next generation of family leaders for the business is an obvious task. How to do so is much less clear, in part because family members rarely gain valid personal and professional feedback, even when a system is in place. And managing the succession-related expectations of members is an ongoing challenge.

A related challenge involves career-path planning for the next generation. "How do I stand and where am I going?" is perhaps the most common question among potential successors. But relatives often feel uncomfortable answering this question, and tend to avoid it.

As a solution, some families establish a human resources committee, which may include an industrial psychologist, the company's HR head and/or an independent director. The committee typically tests and counsels next-generation family members early in their careers to understand what their optimal paths may be -- within or outside the family business. The family HR committee also typically offers performance feedback and personal development guidance, along with coaching to help family members deal with myriad issues, including any jealousies or patronizing within the organization.

4. Succession task force. A succession task force is an ad hoc group supporting the actual transition between generational leaders. Its makeup can parallel that of the family HR committee, or it may include a senior adviser to the family or a recently retired executive from the firm. The task force, which typically reports to the board, might start its work two or three years before the anticipated announcement of a new CEO or chairman, and continue for up to 18 months afterward.

The task force sets and monitors succession timing and addresses all facets of the actual succession: compensation, titles, press releases, company communications, office changes, board relations, impact on others' career paths. It supports both generations involved in this often challenging process.

5. Becoming students of family business. Multi-generational family business success is no coincidence. It's usually the result of serious study and work. Successful families strive to avoid mistakes by seeking outside education and counsel. They develop a large appetite for family business education.

They also seek out other successful business families, meeting with them to benchmark and identify best practices.

6. Pruning the family tree. Inevitably, not everyone wants to (or can afford to) remain an owner of the business's shares. Successful families know that when someone wants out, it's best for that person to get out. Otherwise frustrations can turn to litigation, and everyone loses.

Careful pruning also helps the senior generation let go more easily, as their financial security is more established. A generational harvest is also, often, a fair way to provide the senior generation with funds to be generous to others while passing much of their ownership to their heirs.

Many fear that such harvests will "kill the goose" -- that they will harm the business. Yet paradoxically, when all owners share the same vision and feel financially secure, the business makes more bold strategic moves, usually creating greater new wealth in the long run.

Facilitation of pruning involves three actions. First, have in place a buy-sell agreement for shares. The sooner valuation formulas and terms are stipulated, the better the result for the business. Second, always have a growing pool of capital or balance sheet slack for shareholder liquidity as needed. Third, approach exits graciously; individuals should be able to choose their own paths without judgment or inducement of guilt.

If financial and psychological exits are available, they are actually less likely to be used.

7. Seeing wealth as neutral. A fear of success is the spoils of wealth. Will the pride of great business achievement yield to the destruction of the family work ethic and wasting of accumulated capital?

There are many examples of such destruction to stoke family business owners' fears. But there are also many less sensational examples to the contrary. Successful families steward their wealth for future generations, maintain their drive for achievement and live privileged lives without guilt.

Those who handle wealth adroitly often have a curious perspective: They don't see money as good or bad, nor do they let it define them. They are neither ashamed of nor extravagant with their wealth, typically the result of previous generations' treating their children the same as parents of lesser means would.

8. Careful decision making. Family decision making is difficult. Until the family is large enough that democratic principles take over, every instinct is to make decisions by "unanimous consensus."

Achieving this is hard enough in the face of divergent perspectives, and even more so in a family where individual recognition and past perceived injustices remain unspoken. Thus, successful families nurture consensus by cultivating genuine respect for each member and limiting the influence of personal agendas, striving for a truly fair decision-making process.

9. Going beyond business. If the family business is the family's only interest, most members of the next generation will feel they have no choice but to join it -- whether or not they are passionate and capable -- to preserve their identity in the family. Those who choose not to join will feel like second-class citizens and grow emotionally distant.

Long-lasting business families know that most family members must feel that the guiding principle is "family for family." Thus, to gain wider participation among family members and greater commitment to the business, there must be other highly valued roles and activities for members. Such roles include leadership of family philanthropy, the family council or perhaps a family office or investment company.

Members in these satisfying positions are more likely to appreciate and protect the business's financial strength, as that funds all other roles.

10. Managing family philanthropy. Many business owners say it's easier to make money than to give it away well. That's in part because entrepreneurs, immersed in growing their business, often just put aside the notion of philanthropy, beyond their marketing needs.

It's always better to start the next generation thinking about philanthropy and collaborating with them on philanthropic activities early. Successor-generation members also face specific questions regarding philanthropy, including whether they can adapt their parents' "donor's intent" to fit their own shared passions and, perhaps, changing circumstances.

Here again, thinking strategically and long-term is the key. Successful families plan philanthropy carefully and collaboratively with successive generations, using it as a source of bonding and increased comfort with inherited wealth and privilege.

Coping in challenging times

Today's family businesses face tremendous market challenges stemming from the turbulent and ever more competitive global economy, on top of the obstacles inherent to any family-run firm. Tapping the hidden arts presented here will help them maintain their documented superior performance to non-family firms and sustain this, along with harmonious family relationships, from generation to generation.

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