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Businesses on planning with a Generational Mentality

“You don’t inherit a family business; you borrow it from your grandchildren” (Axel Dumas, CEO of Hermès, and a sixth-generation member of the Hermès-Dumas family)”.

According to Statista, the estimated number of companies or businesses is approximately 333.34 million worldwide in 2023 and most of those Businesses are family-owned. Many businesses that transition across generations are family businesses with founders with an eye to the future and a heart for their families of today and tomorrow.

According to the Family Business Institute, only 30% of these Businesses last into a second generation, 12% remain viable into a third, and 3% operate into the fourth generation or beyond (Harvard Business Review).

If you don’t plan for future success, you are planning for future failure. Your business might be in its infancy, deep into its first generation, or perhaps it is one of the 30% that remain active into its second generation. Regardless of that, as time goes on, the likelihood that the business you’ve worked so hard to build and maintain will continuously drop significantly, which affects your future family and hence your legacy.

Because family businesses play a critical role in the global economy, some of the world’s most successful businesses have been passed down to families from generation to generation. Surprisingly, 80% of the companies in the world are family-run; in the U.S., family businesses employ 60% of the workers and generate 78% of new jobs(Harvard Business Review). A good number of these businesses are large and successful, and a handful have lasted for hundreds and hundreds of years.

Every success is not mere luck or blessing, nor is merely a matter of large capitals, there is always a set path through which one attains the desired success and properly defined steps to go through the sketched path. What have the 30% done to make it to the second generation? The 12% to the third generation? Or best of all; the 3% to the fourth and beyond?

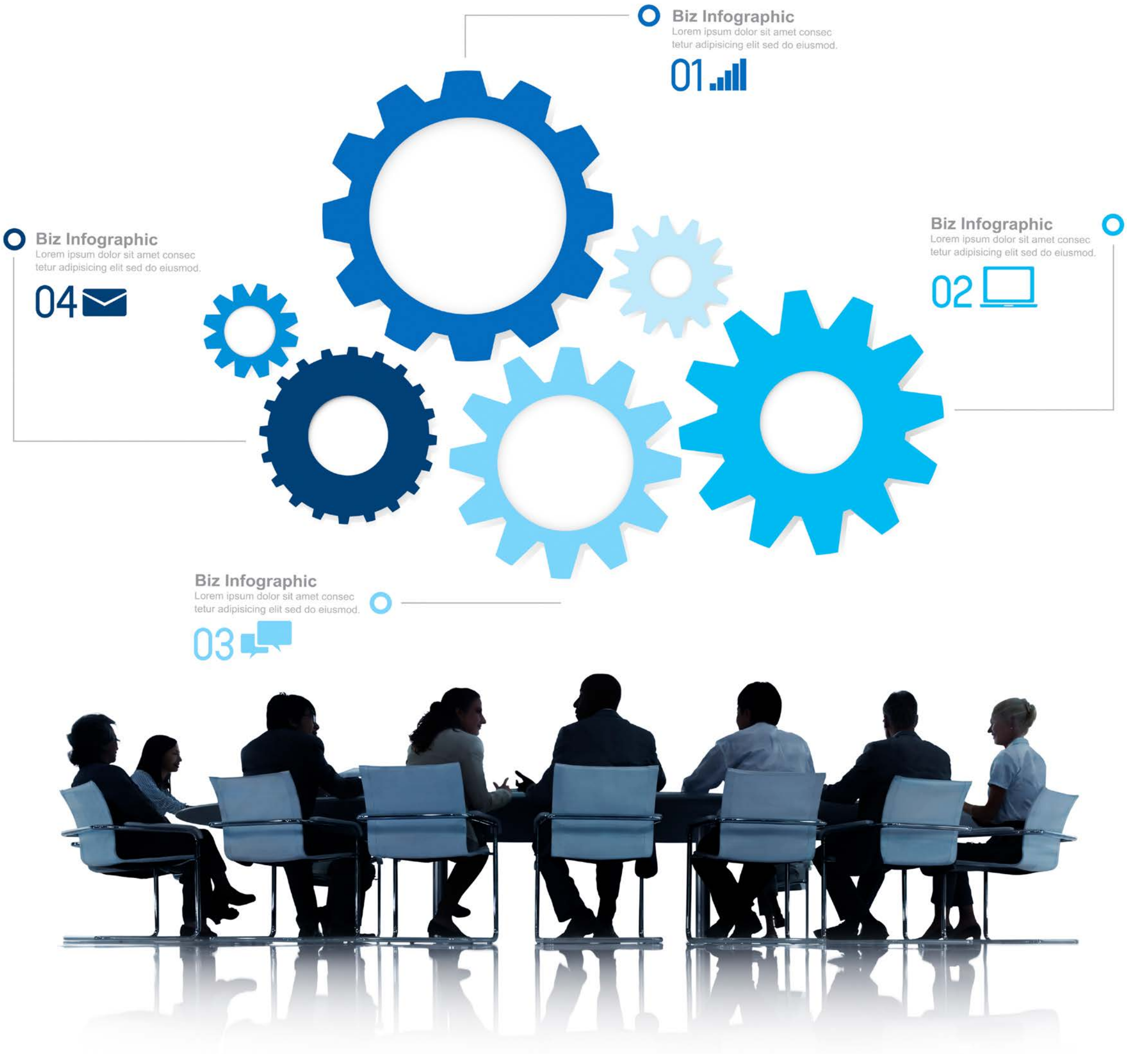
Establishing Processes Over Time

Businesses that thrive and succeed across generations are good at balancing the intimacy and attentive characteristic of an organization with standard operating procedures and codified processes.

In case there is a need for talents from outside the family; the business needs to ensure there is a fair, repeatable process, and fair policies in place to attract and retain the talent required for success.

A business cannot have long-term success if it is solely guided by the whims and caprices of the matriarch, patriarch, or next-generation leadership.

If there is no proper governance in place to offset the appearance of nepotism and unilateral If there is no decision-making by family members, longevity is much more difficult.



Planning Succession Strategically

Businesses or companies, especially family-run businesses that survive across generations embrace long-term, intentional, and strategic succession planning. For such businesses, choosing the next company leader is so critical to future success that it requires deep, thoughtful, and, yes, perpetual planning. Succession is a process at long-lived family businesses, and it is a process that never ends.

Strong succession planning for family businesses that have sustained longevity means:

- Establishing a formal succession planning process.
- Assigning responsibility and accountability for succession planning to a specific team.
- Understanding that succession is a long-term, perpetual process that requires steady, and consistent work.

"The most important goal in running the family business is to hand over the business. You don't own it. You're just watching it, guarding it, nurturing it, to hand it over to the next generation in as good a condition as possible," stated George Riedel, owner of Riedel Glass. (EY Family Business Yearbook, 2014.)

The process is key to avoid poor succession choices and eliminating the perception among non-family employees that the next leader is only getting the position because of family connections. Non-family talent must have confidence that the established succession process will produce a competent, well-trained leader, who also happens to be a family member.

Objective Governance

Long-running businesses have codified governance mechanisms in place, namely; a board of directors to which the organization is accountable. Family members always hold board meaning, but the most successful family business boards are a mix of family and non-family members.

Additionally, businesses must bring in external talent at all levels to succeed long- term. If there are no mechanisms in place to counter the perception of possible nepotism, favoritism, and other family-related challenges, perceived or real, attracting and retaining talent will be a challenge. Potential individual contributors and executive hires need to sense a balance between family influence and outsider objectivity.

Leveraging the Family Brand

Businesses that have succeeded across generations know how to leverage the family-run brand to their advantage. Family-run or family-owned and -operated businesses—even just family member-led organizations—tend to be trusted more by customers, clients, and consumers.

This inherent audience trust must be maintained, however; keeping this trust comes down to cohesion and brand unity across the organization. Lack of process and an absence of governance within a family-run organization will eventually erode this trust, as the internal discord that will result will flow out into the market in time, damaging the brand.

Family-run businesses tend to start from a position of strength when it comes to audience perception of their brand, benefiting to some degree from a long- standing affinity for the tradition of "mom-and-pop" authenticity and honesty. Family businesses that have survived across generations understand that this "mom-and-pop" trust is a valuable differentiator and they have invested in the process and governance infrastructure to preserve it.

Executing a Generational Mindset

Businesses run by families that have lasted generations are always thinking long- term wise. The family leader of these businesses put generational survival over short-term success, short-term profitability, and immediate personal returns. Shepherding the business toward long-term viability trumps most other concerns, which tends to make these businesses less profitable than non-family-owned organizations in boom times and more resilient in down economies.

Concluding, family businesses focus on resilience more than performance. They forgo the excess returns available during good times to increase their odds of survival during bad times. A CEO of a family-controlled firm may have financial incentives like those of chief executives of non-family firms, but the familial obligation he or she assumes will lead to very different strategic choices.

Executives of family businesses often invest with a 10 or 20-year horizon, concentrating on what they can do now to benefit the next generation. They also tend to manage their downside more than their upside, in contrast with most CEOs, who try to make their mark through outperformance."

This means that these businesses:

- Are financially conservative in good times and tough times.
- Tend to invest in capital projects that they can afford and are more likely to produce stronger returns.
- Maintain a strong link between debt and loss of autonomy and therefore try to stay debt-free.
- Tend to retain talent and have lower turnover rates, maintaining continuity, saving money, and preserving the family-run brand and company culture.

Small, mid-size, and larger businesses started and run by families can learn valuable lessons by looking at similar businesses that have lasted for generations. Establishing processes, committing to ongoing succession planning, building out balanced governance boards, protecting a brand's "mom-and-pop" identity, and remaining resilient are some better practices for a generational business that plans for long-term success to adopt.

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