

How to Run Your Family Business without Ruining Your Family

Kristi Daeda
Be BOLD Conference
Bank of Tennessee
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What do you think of when you hear
“Family Business”?

TireDiscounters
**FAMILY OWNED
SHUTUP
NO
YOU SHUTUP**

TireDiscounters

VALUES
MISSION
PRIVILEGE
STEWARDSHIP
OPPORTUNITY
PROSPERITY
WORTHINESS
RESPONSIBILITY
BLESSING
READINESS
LEADERSHIP
CONTRIBUTION
COMMITMENT
ABILITY
RISK/REWARD
FAITH

COMMUNITY
HONESTY
INTEGRITY
HUMILITY
CHARITY
WORKING TOGETHER
FUTURE
GENERATIONS
DEVELOPMENT
HARD WORK
KNOWLEDGE
DIFFERENCES
COMPROMISE
PLANNING
RELATIONSHIPS
COMMUNICATION

Family Business: A Global Perspective

United States – 22 million
Companies

- 92% Family-controlled
- 49% Gross Domestic Product
- 59% of Workforce
- 78% of New Jobs Created
- 60% of all Public Companies
- 37% of Fortune 500

Latin America,
Europe
& Asia

Approximately 98%
Family-Controlled

Source: Myths and Realities: Family Business's Contribution to the US Economy, Shanker and Astrachan, *Family Business Review*, 1996

Family Firms Outperform Non-Family

	Family Cos. (S & P 500)	Non-Family (S & P 500)
ROE+	15.6%	11.2%
Average ROA+	5.4%	4.1%
Revenue Growth (10-yr. avg)+	23.4%	10.8%
Income Growth (10-yr. avg)+	21.1%	12.6%
ROE predicted for 2006*	20.7%	15.1%
EBITDA of companies still controlled by founders +6.65% **		

+Business Week, 2003

*Morgan Stanley reported by International Herald Tribune, 2006

**Anderson and Reeb, 2003

Public Non-Family vs. Thriving Family Controlled Businesses

	Popular Practices	Family Businesses
Ownership Philosophy: Stakeholders	Owners as traders: •Quick profits •Little loyalty	Owners as stewards: •Involved in enterprise •Focused on long haul
Business Philosophy: Top Managers	Tactically, financially driven •Quarterly numbers are king •Core competencies and competitive focus suffer	Strategically, mission driven •Long term is king •Profound investments in business and its people
Social Philosophy: Staff & Relationships	Individualism •Market/bureaucratic control •One-shot transactions •Extrinsic incentives	Collective, shared values •Clan control •Lasting relationships •Intrinsic incentives

Managing for the Long Run:
Lessons in Competitive Advantage from Great Family Businesses
Danny Miller and Isabelle Le Breton-Miller, Harvard Business School Press, 2005



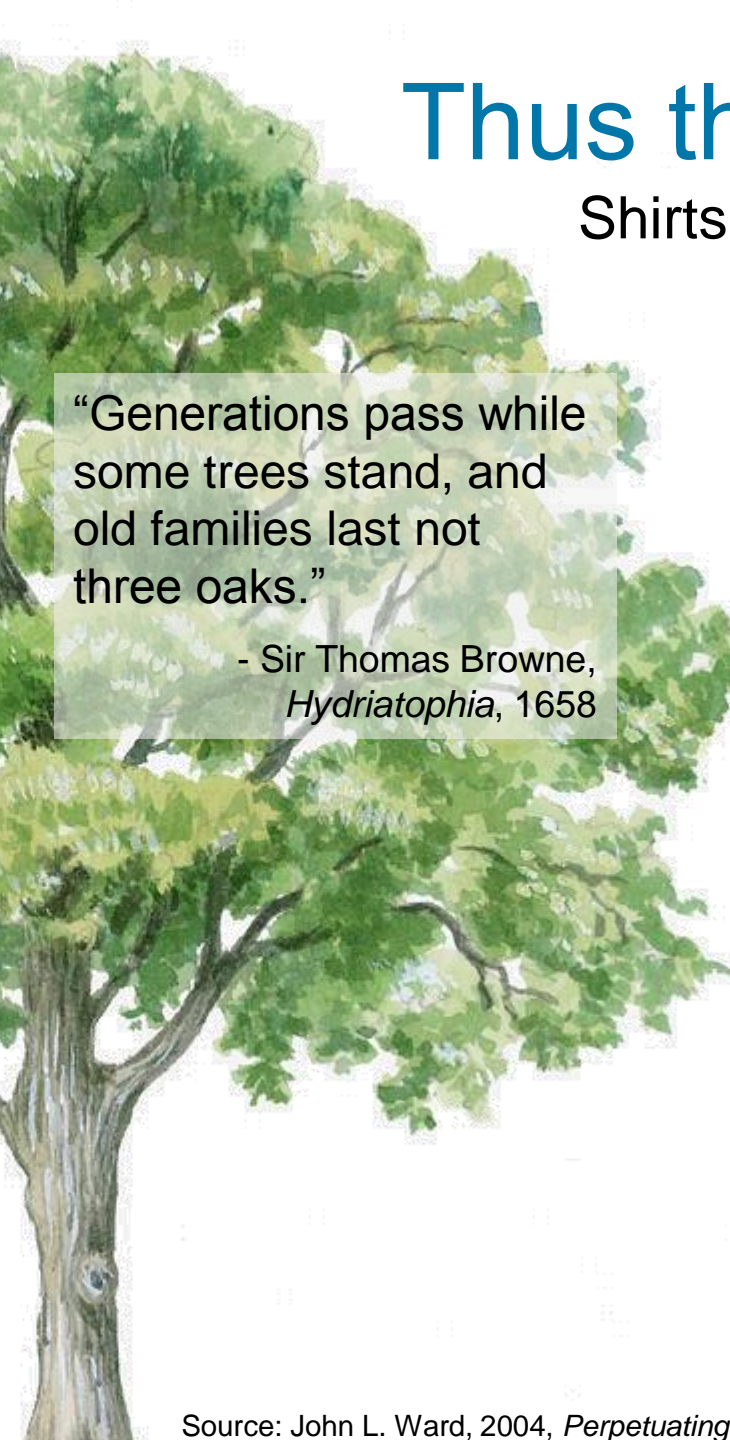
But the Statistics are Frightening...

- **30%** of all family businesses make it through the second generation into the third generation
- **10-15%** make it through the third generation
- **3-5%** make it to the fourth generation



Thus the expression...

Shirtsleeves to shirtsleeves in three generations.



“Generations pass while
some trees stand, and
old families last not
three oaks.”

- Sir Thomas Browne,
Hydriotaphia, 1658

Padre Bodeguero
Hijo Millonario
Nieto Pordioçero
- Spanish

Pai Rico
Filho Nobre
Neto Pobre
- Portuguese

La première génération la crée
La deuxième la developpe
La troisième la tue
- French

Erwerben
Vererben
Verderben
- German

“Typically, the rapacity and
acquisitive focus of the first
generation gives way to the
cautious, conservative ethos of the
second and the spoiled and
heedless frivolity of the third.”

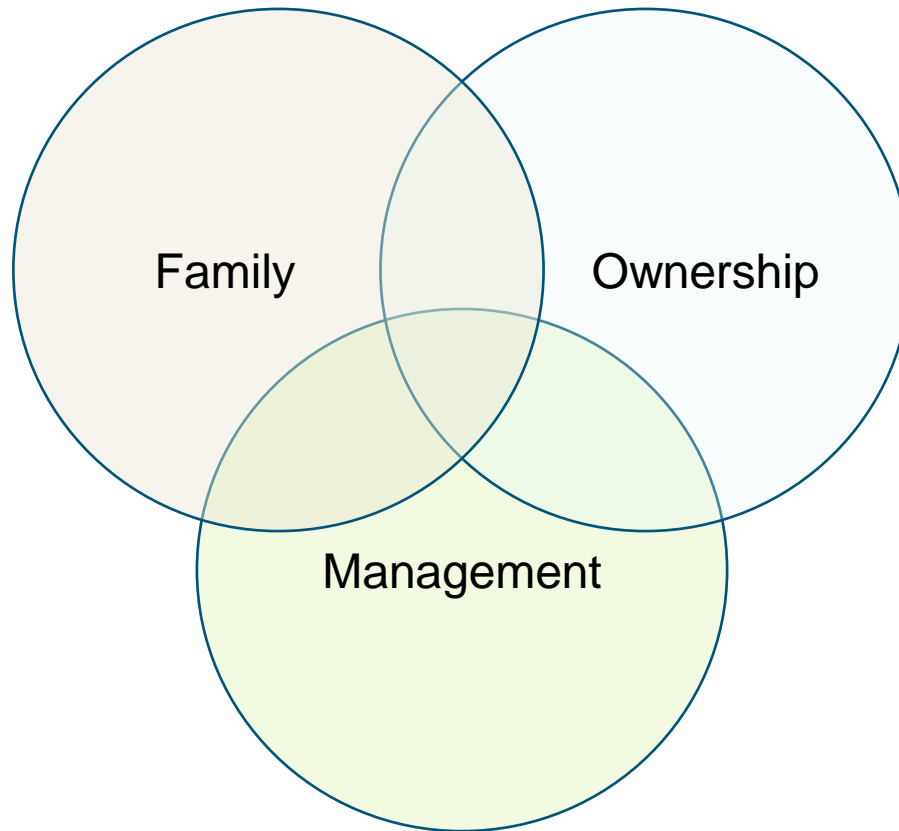
Adam Bellow
In Praise of Nepotism, 2004

What is it that causes family companies, or the families themselves, to fail?

And conversely, what supports their SUCCESS?

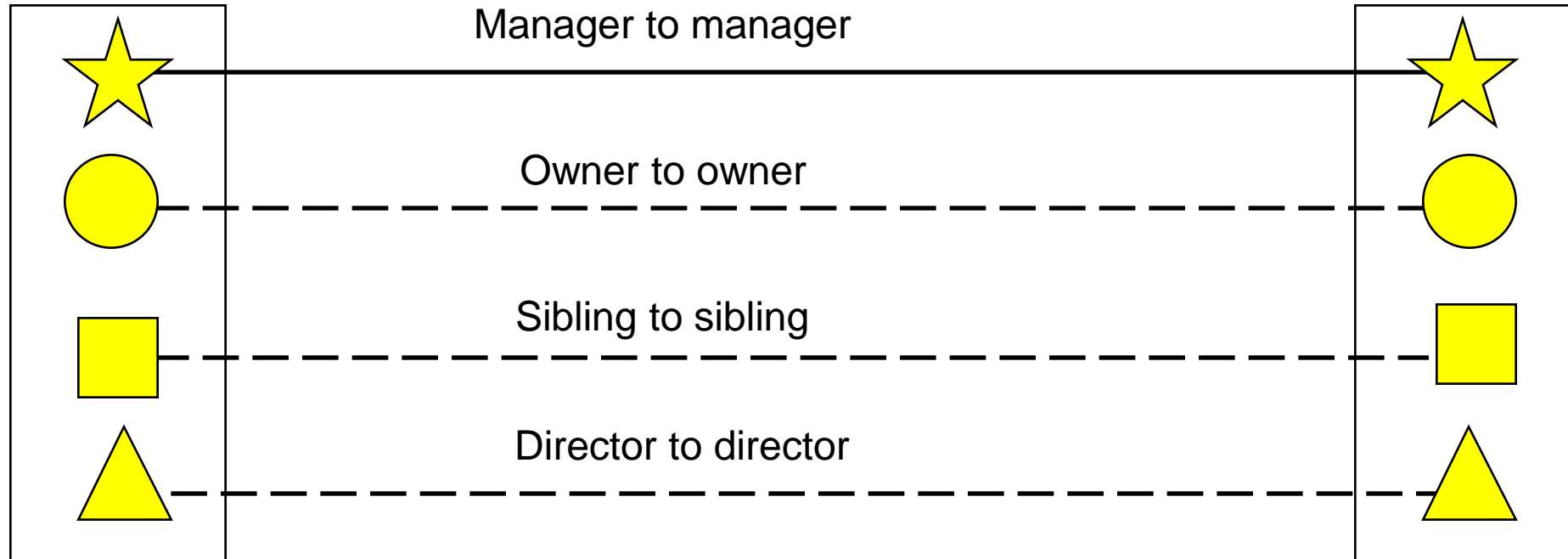
1. Family Business is Complicated

The Basics: Three Circles



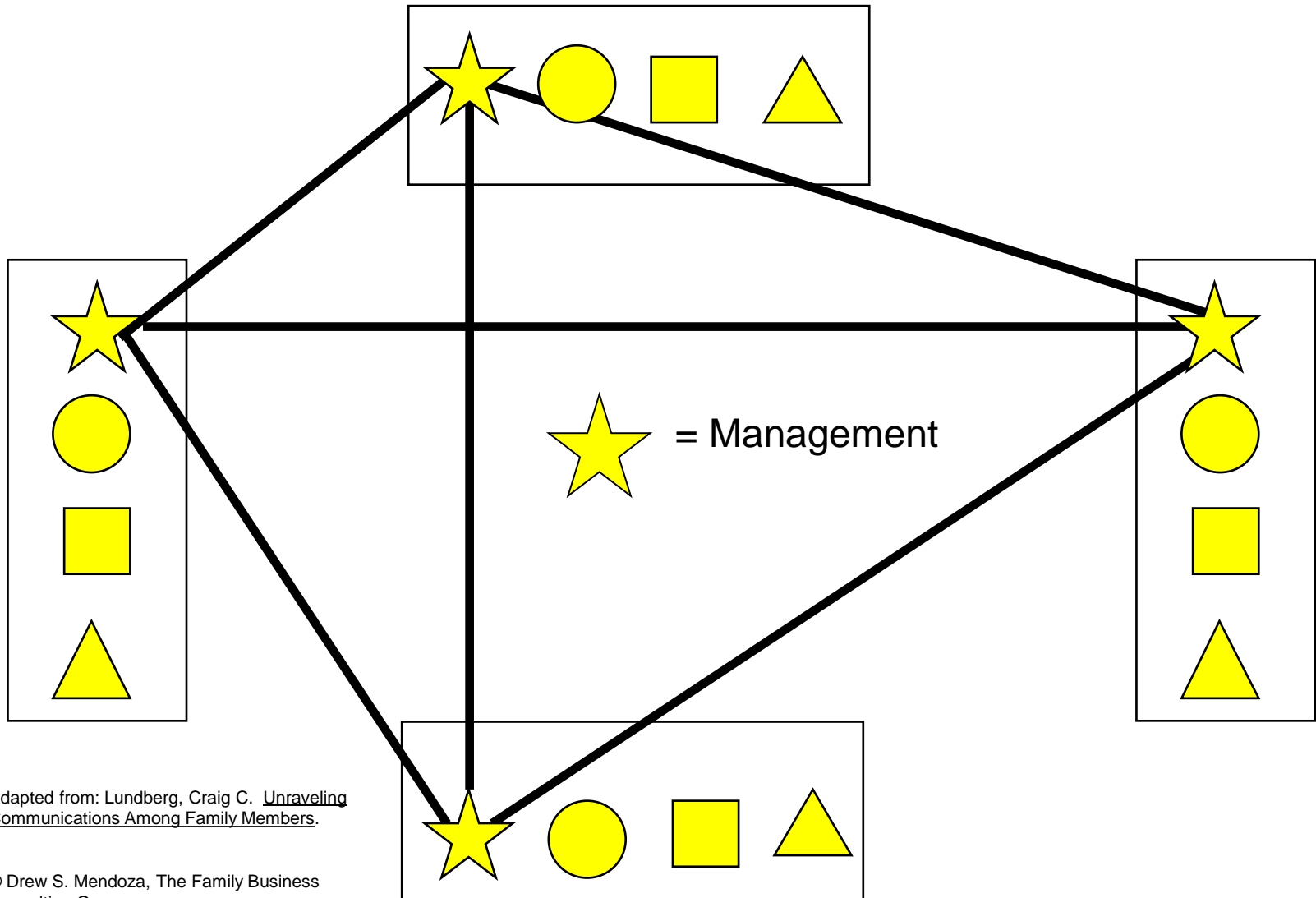
Adapted from Gersick, Lansberg,
Davis, McCollum (1997)

Communications are easiest when all wear the same hat



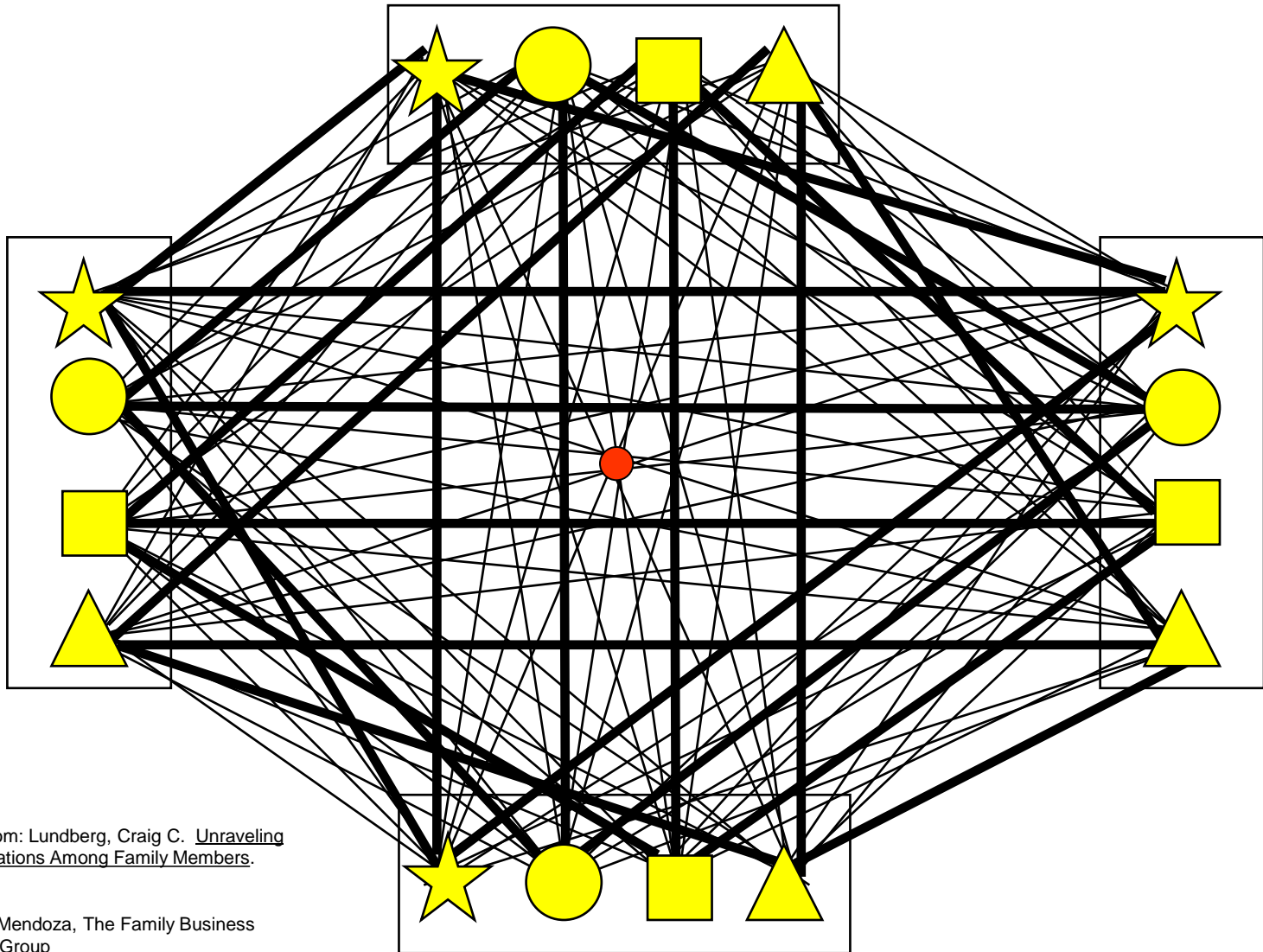
Adapted from: Lundberg, Craig C. Unraveling Communications Among Family Members.

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1. Family Business is Complicated
 2. Things Change Over Time

Growing Family Complexity

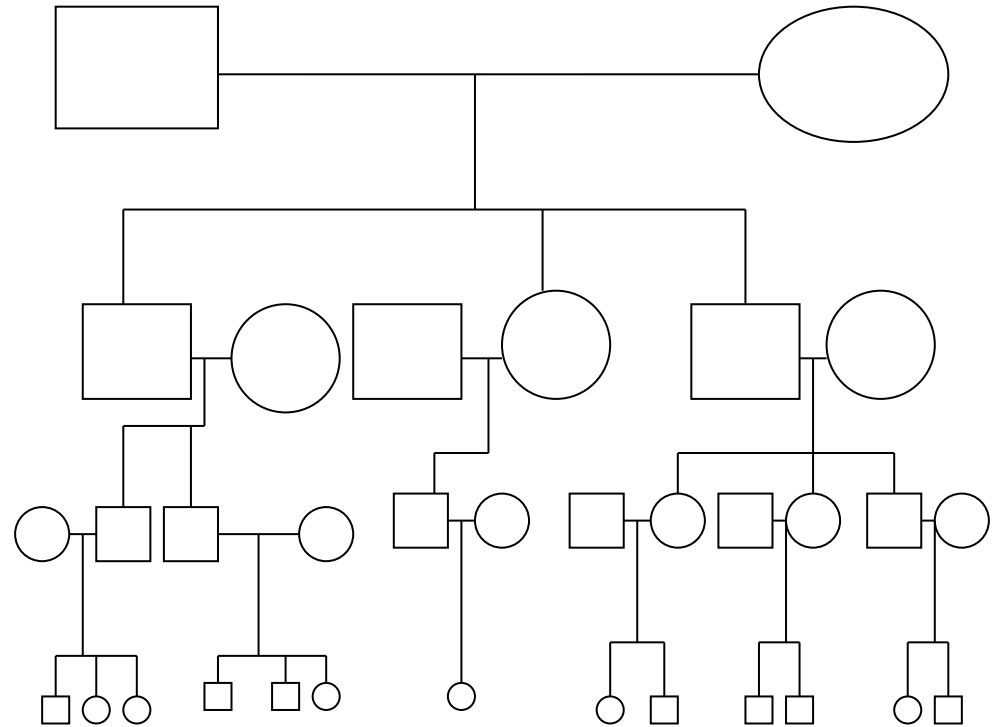
Owner-Managed

Family Partnership

Sibling Partnership

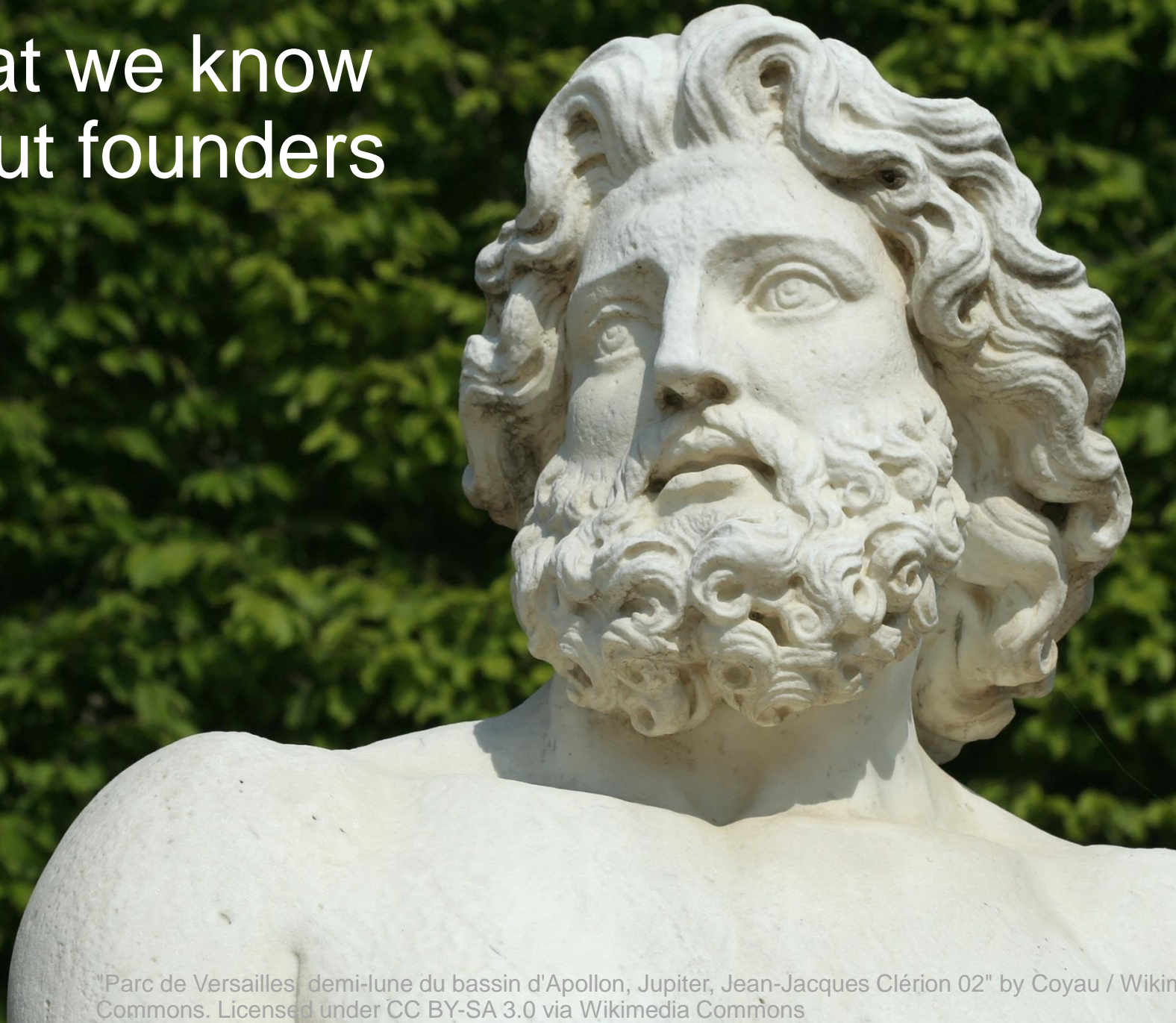
Cousins' Collaboration

Family Syndicate



Adapted from John Ward

What we know about founders



"Parc de Versailles, demi-lune du bassin d'Apollon, Jupiter, Jean-Jacques Clérion 02" by Coyau / Wikimedia Commons. Licensed under CC BY-SA 3.0 via Wikimedia Commons



What we know
about siblings

What we know about cousins



Sibling generation is most difficult

- Same parents and same household.
- Emotionally connected to the business, their parents, and to each other.
- With large stock blocks (20-50% each) the family business can be threatened by anger, disenchantment or unproductive team member.
- Tremendous parental influence.
- Big change from founder-led to sibling-led.

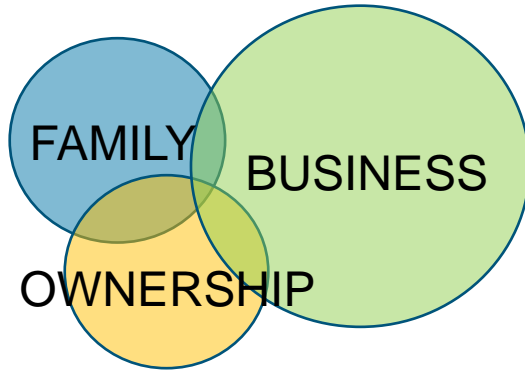
Pitfalls that derail siblings

- Taking stands based on ego.
- Being unaware that someone - a non-family employee, perhaps - is playing team members off one another.
- Triangulation with parents and spouses.
- Spouses who don't feel part of the team or welcome in the family.

Complexity increases with every generation

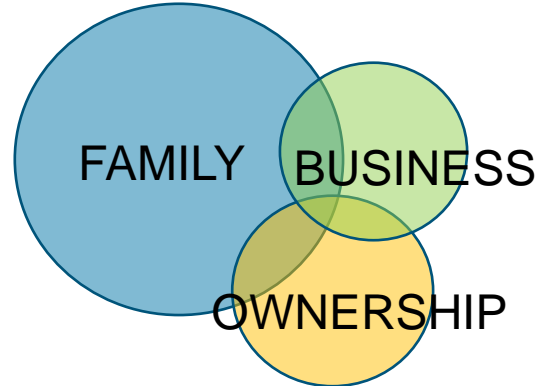
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1. Family Business is Complicated
 2. Things Change Over Time
 3. There are Proven Ways to Succeed

When the circles are out of balance....



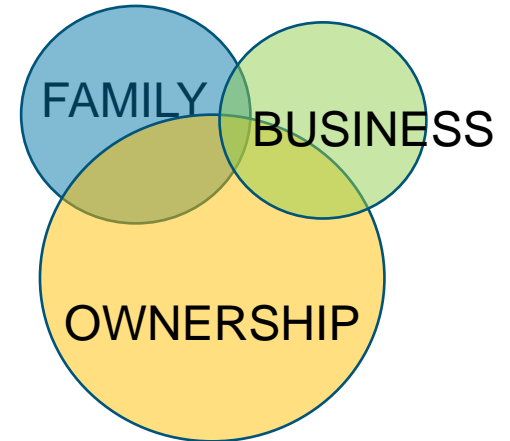
Business largest:

- inappropriate estate plans
- information vacuum
- lost family vision/values
- distant next generation



Family largest:

- inappropriate hiring decisions
- family first at all costs
- little attention to business
- meddling



Owner largest:

- likely a harvester
- sense of entitlement
- power struggles on control
- tax driven estate planning
- no exit/buyout strategy

GOALS:

1. Raise our awareness of impacts to other “circles,” which allows us to...
2. Plan for and mitigate any challenges that will arise.

The three pillars of family business continuity

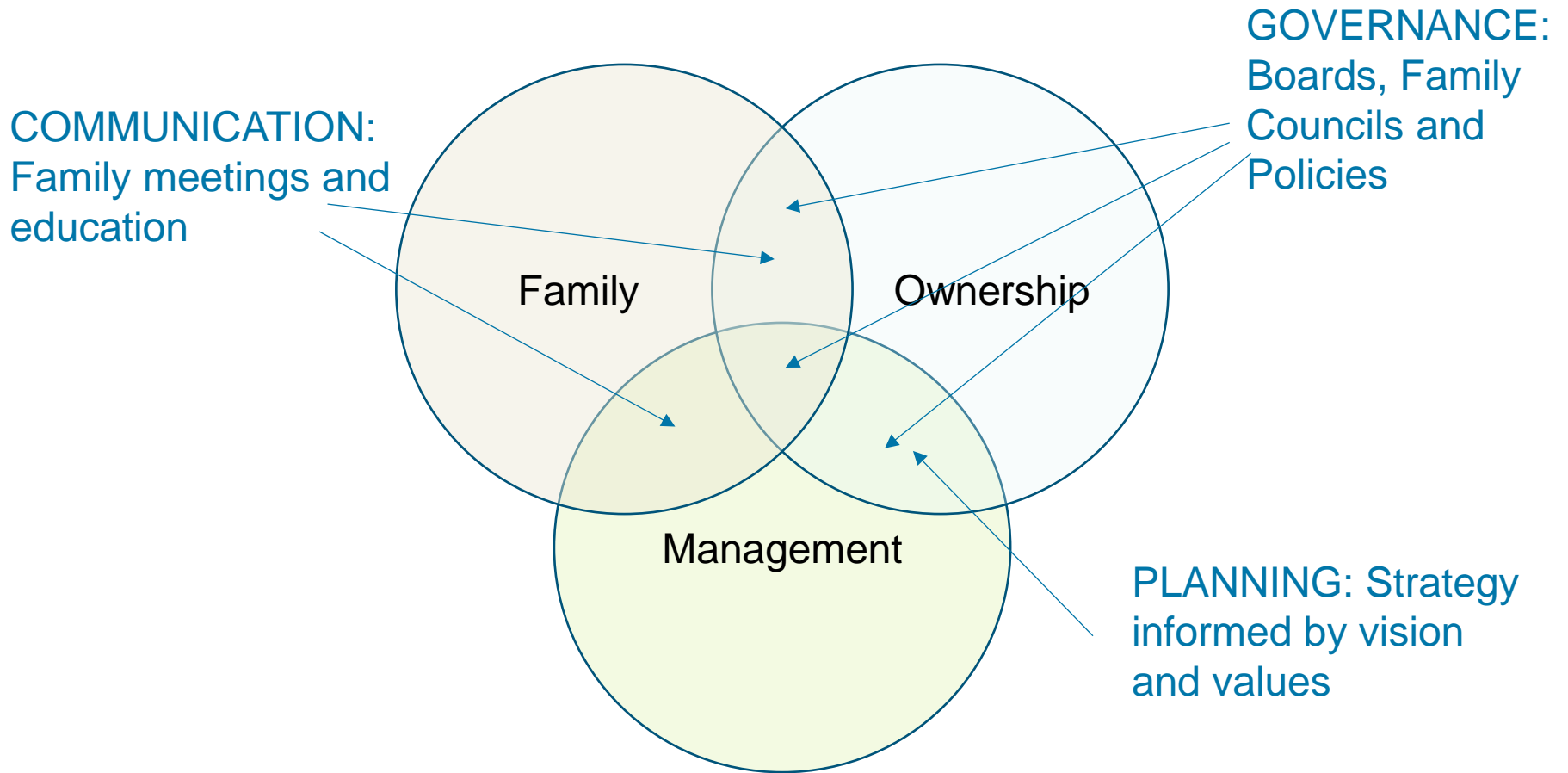
COMMUNICATION

PLANNING

GOVERNANCE



The Basics: Three Circles



Adapted from Gersick, Lansberg,
Davis, McCollum (1997)

COMMUNICATION

Family Meetings & Shareholder Education

What is a Family Meeting?

A regular gathering
of family members
for the purpose of
advancing the family

“...the more inclusive the family meeting membership is,
the greater the positive effect on the firm; what is discussed is not
as important as who participates in the process.”

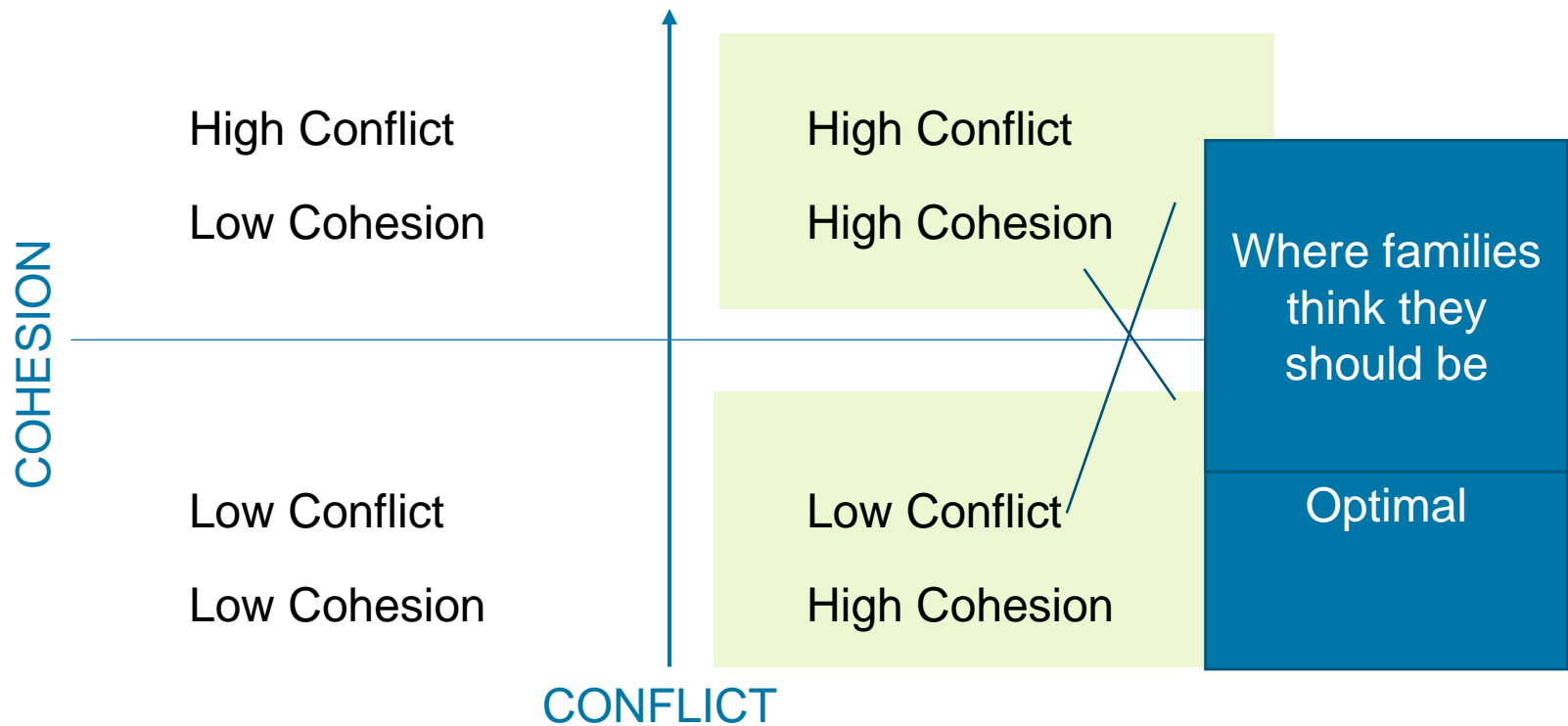
Journal of Small Business Strategy Vol 18 No.1, Spring/Summer 2007

Top reasons for holding family meetings

1. To **build and maintain** a strong family and family enterprise
2. To **preserve and advance** family values, traditions and history
3. To recognize and **resolve conflicts**
4. To **plan for how the family will participate** in the family enterprise
5. To **build the potential** for a strong next generation leadership and ownership
6. To help children learn to **manage inherited wealth**
7. To **smooth difficult transitions**

Source: Wendy Sage-Hayward, The Family Business Consulting Group, Inc.

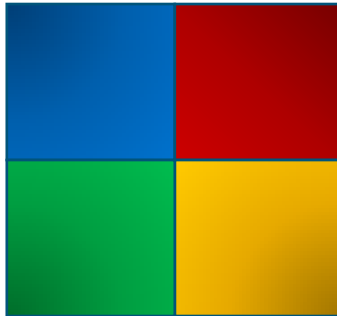
Where do we want to be?



Four Cornerstones of Family Meetings

FAMILY DEVELOPMENT

- Assessment
- Learning
- Planning
- Skill training
- Policy Creation
- Philanthropy



FAMILY ENTERPRISE

- Entrepreneurial focus
- Information sharing
- Tours, internships
- Meet with directors
- Innovation
- Connection to Ownership and Business

FAMILY COHESION

- Vision, Mission, Values
- History and traditions
- Hopes Dreams, Aspirations
- Support, Care, Love
- Fair Process

FAMILY FUN

- Games
- Activities
- Tournaments
- Talent shows
- Humour
- Celebration

Source: Wendy Sage-Hayward, The Family Business Consulting Group, Inc.

PLANNING

Strategy Driven by Mission, Vision and Values

What is vision?

What we want to achieve or accomplish in the mid-term to long-term future.

- Often unarticulated
- May not be clear to all involved
- May be different generation to generation

Reasons families avoid discussions around vision

- It's not action oriented
- They don't know how to do it
- They're afraid of the outcome

Benefits of Aligned Vision and Values

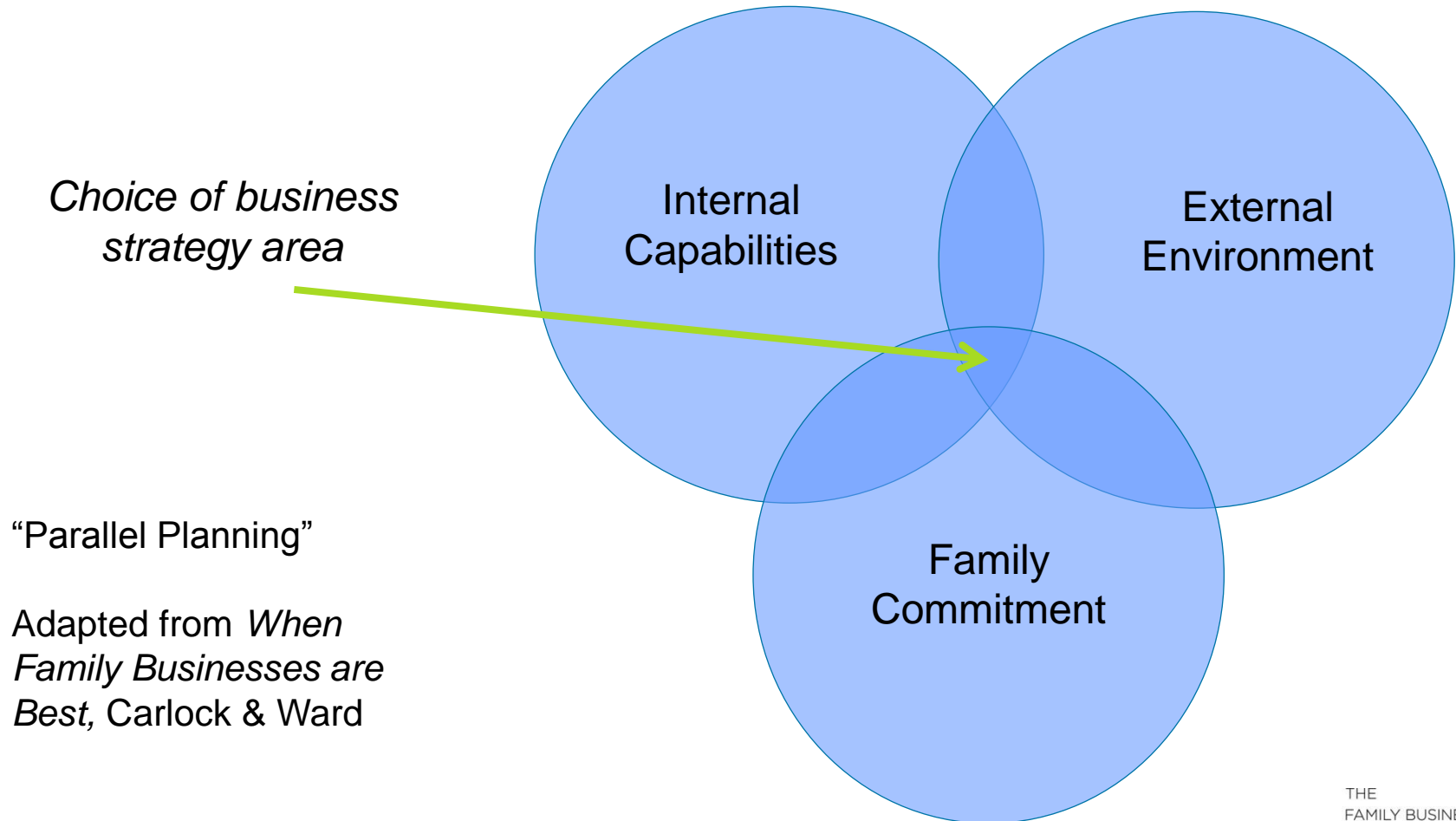
- Provides clarity, focus
- Mobilizes family members & nonfamily employees
- Serves as a benchmark for management
- Provides meaning to family about their engagement in the enterprise
- Helps family members make decisions about their willingness/interest in committing to continuity or exiting

Questions to Ask and Answer

- How long do we aspire to own the business?
- Under what conditions would we consider selling the business?
- Is it important that the leader of the business be a family member?
- Do we believe that next generation owners should own the business equally?
- Why do we want to be in business together anyway?

Effective **STRATEGY**
Is derived from
VISION/VALUES
COMPETENCIES
MARKET CONDITIONS

Strategic Planning in Family Firms



GOVERNANCE

Boards, Family Councils, Policies and More

How will we know when...

- We have the right people involved in a decision?
- We're meeting our expectations of each other?
- We're appropriately balancing the health of the business with the health of the family?
- We're planning effectively for the future of the business?
- Our strategy is aligned with our vision and values?

What is governance?

AGREEMENTS, ACCOUNTABILITY, and PROCESS:

- Values statements
- Policies
- Board of directors
- Family meetings
- Family constitutions
- Family council
- Owners' council

Sample Key Policies

- Employment/Participation Policy
- Compensation Policies
- Rights & Responsibilities of Owners
- Qualifications for Board Service
- How Directors are Elected
- Confidentiality Policy
- Code of Conduct

Other Key Documents:

- Shareholders Agreement/Buy-Sell

Where should we start?

Key Tasks: Founders



1. Articulate a vision for the future that the family can share.
2. Begin to put in place structures for support and oversight for both the family and the business.
3. Give next generation members appropriate roles, good mentors, and opportunities to fail.
4. Plan for and talk about your own exit.

Key Tasks: Siblings



1. Become an autonomous, independent team.
2. Take the initiative as successors.
3. Put in place policies, structures & strategies that benefit business and family.
4. Position the next generation for success.

Key Tasks: Cousins



1. (Re)define what it means to be a member of the family.
2. Develop or update structure for family governance.
3. Develop objective criteria for measuring accountability.
4. Invest in development of next generation for management & ownership roles.

Questions?

Contact Information



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