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INTELLIGENCE MATTERS: Issues for Critical Thinking

The Challenges and Opportunities of Family Business During Economic Crisis

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In October 2008, in the midst of the ongoing global economic crisis, more than 300 top business leaders, advisors, educators and researchers in the family business and family wealth fields, along with social commentators and journalists, convened in London to participate in the annual international conference of the **Family Firm Institute** (FFI).

Among those in attendance was a group of family business owners convened to represent a broad spectrum of industries, countries, and generations. They met separately to offer timely insights on strategies for global competitiveness amidst the events of the financial turbulence.

The panel was moderated by FFI President Carmen Bianchi (San Diego State University) and included:

Jaume Tomás Carulla (Fundación Nexia, Spain)
Lansing Crane (Crane Paper, USA)
François de Visscher (Baekert, Belgium)
Dan Echavarria (Corona, Columbia)
Susana Gallardo (Criteria, Spain)
Joaquin Uriach (Groupo Uriach, Spain)
Tom White (Haws Company, USA)
Yuelin Yang (IMC Corp. Ltd, Singapore)
Deborah Zildjian (Zildjian Company, USA)

Two questions were posed to the panel for its reflection.

I. *What are the major issues facing families in business today now that a unique combination of international politics and global trade has created the "perfect storm" for business?*

The absence of a strong leadership personality in many family enterprises that have passed to the 2nd generation and beyond sometimes results in an anemic approach to management of the enterprise.

LEADERSHIP

For the last twenty years, families in business have embraced shared leadership models as a means to smooth transitions from what has been traditionally termed by scholars as the "entrepreneurial founder" to the "sibling partnerships and/or cousin consortiums." Despite the virtues of shared leadership models and their applicability in certain elements of a transition, they have their limitation in times of crisis. Furthermore, the absence of a strong leadership personality in many family enterprises that have passed to the 2nd generation and beyond sometimes results in an anemic approach to management of the enterprise.

With an assortment of new business models and approaches to leadership available, especially ones that have been tested by and adapted to a variety of business circumstances, multi-generational family businesses have more tools at their disposal for surviving through crises. Drawing on the lessons learned from previous periods in history (wars, recession, and natural disasters) as well as the wisdom of entrepreneurial founders in preceding generations, will provide helpful guidance for successfully navigating through the present storm.

PASSION

The family enterprise has a unique opportunity to nurture values that are not always found in the mainstream business culture or society at large. "Turning the younger generations loose" in the public sector or other family companies might have the unexpected effect of diluting their enthusiasm for their own family's enterprise and values.

Understanding the role of "passion" in managing the family enterprise involves taking into account differences in perspective formed by generational experience. Among family business owners with younger generation members now entering the work force and desiring to participate in the family company, there is the fear that following years of developing professional standards for the organization, the rules for younger generational input and participation have had a stifling effect on their passion for the work and diluted the family's corporate DNA. One such example of how arbitrary rules are not particularly constructive in the development of young people is the commonly-practiced norm of having younger family members work outside of the company as a rite of passage into the family business.

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Legacy models supporting the notion of younger family members participating in the business at an early age offer valuable instruction on ways to proceed in contemporary times. In some fields, such as the arts, family members knowledgeable about the industry itself and the family's traditions in that industry, offers unique value from the perspective of marketing and business strategy. In short, nurturing the passion of younger generations should be emphasized as well as developing the professional capacities of subsequent generations.

LIMITATIONS OF THE 3-CIRCLE MODEL

The 3-circle model developed by Taguiri and Davis is demonstrably useful in developing the consulting field and contributing to the understanding of the overlapping areas between the family and its business. However, a major flaw is in not incorporating individual family members as a theoretical concept. Absent a formal approach to developing and integrating the needs of individuals into the structure and leadership of the family organization, the enterprise will be disadvantaged, particularly as the pool of family members connected to the business expands throughout the generations.

Every individual connected to a family enterprise should have:

- Education on the business to really know what it is and what it takes to succeed;
- Education to innately understand that it is yours to nurture and protect, not to take advantage of;
- Education on how to manage one's personal behavior (interactions) and emotions on the job. Personal emotions are not constructive to the success of the family enterprise but an emotional commitment for the business — and how family members thrive in relationship with each other — is relevant to many issues such as governance structures, etc. (Knowing the ABC's of good communication, management of emotions, and conflict resolution!)

These education points are fundamental. More thought needs to be given to developing flexible paradigms that incorporate the personal development of family members — including succeeding generations — within a proportionate context to the overall strategic goals of the organization.

INTERNATIONAL CONTEXT

Two key issues were identified beyond the assumed inevitability of global enterprise or the considerations involved in taking an enterprise global:

- There are specific challenges to professionalizing domestic companies when outside managers (or family managers) have international business educations. With more people enrolling in business schools around the world, joining a family enterprise that is largely domestic can set up cultural conflicts — even when the family members are from the same country (i.e., the cultural conflict is on business issues less than on family dynamics). This can also be a dilemma inherent to generational differences or one where company founders may have a regional education that has helped to form a regional outlook on their part. Nevertheless it is likely to remain an issue for resolution into the future.
- Goals regarding ownership versus the business need to be aligned: A change in mindset is needed when converting the enterprise from domestic to international. While such a shift in strategic direction can be painful for owners, it is often more easily understood and assimilated by management. It is necessary to provide meaningful liquidity opportunities that allow the ownership risk profile and goals to match the strategic needs of the business in order to ensure competitive success in global markets.

Young, internationally-educated family members or non-family managers should be encouraged to interface more effectively with first generation entrepreneurs who are still in control of the company.

II. ***How can professional advisors be the most helpful to family enterprise?***

There is both a philosophical and practical response to this question.

- Philosophically, a paradigm switch might be required as family enterprise consulting enters its own second generation. Historically, consulting to families in business has not been sufficiently distinguished between advising families with an operating business from advising families whose wealth was created by a family enterprise. (Sometimes the presence or absence of a family office is used as a distinguinshing feature).

Often in an attempt to avoid selling products, family business advisors have tended to operate on a project basis and resist becoming involved in the details of implementing some of their recommendations. Advisors and consultants need to rethink that model and dedicate themselves to fewer clients at one time, offering longer term, more extensive services (be clear that advising or consulting is an ongoing process, not a one-off; effective counseling is performed on a continuum).

- On the practical side, advisors should be cautious about being too formulaic. In the last 25 years, as family business advising and consulting has gained credibility as an established profession, a number of interventions have become necessary, such as the establishment of family councils or process protocols. This tendency can lead a family to erroneously assume that once project agenda items have been successfully completed, managing the diverse elements of the family and business have either been taken care of, or switch on to automatic pilot.

Additionally, more professionals from the soft side of traditional family business advising need to be encouraged to enter the advisor ranks. Several of the issues identified in Question 1 can only be addressed with the guidance of skilled process consultants.

A cadre of professionals with soft-side skills would be better equipped to address the passion issues and identify those who have the emotional energy for the company and the family. Young, internationally-educated family members or non-family managers should be encouraged to interface more effectively with first generation entrepreneurs who are still in control of the company, particularly in Asian organizations. And the needs of the individual within the family and family enterprise system need to be addressed.

Finally, and almost conversely, advisors who start out (and remain) in the technical end of the field need to broaden their skills to improve the quality of their counsel on the integration of the legal issues and ownership structures with non-legal concerns. Often the hard side consultants are not sufficiently aware of the effect (often disastrous) of un-integrated legal advice, particularly when it comes to ownership issues.

CONCLUSION

Professionals in the field should recruit insightful chroniclers who may report and analyze on the workings of the current economic crisis as it plays out in the next few years. Such an accounting of the issues and dynamics may be an instructive narrative for future generations on how business leaders faced down the first great challenge to business in the 21st century — and how the unique perspective of family business owners contributed to the solutions.

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