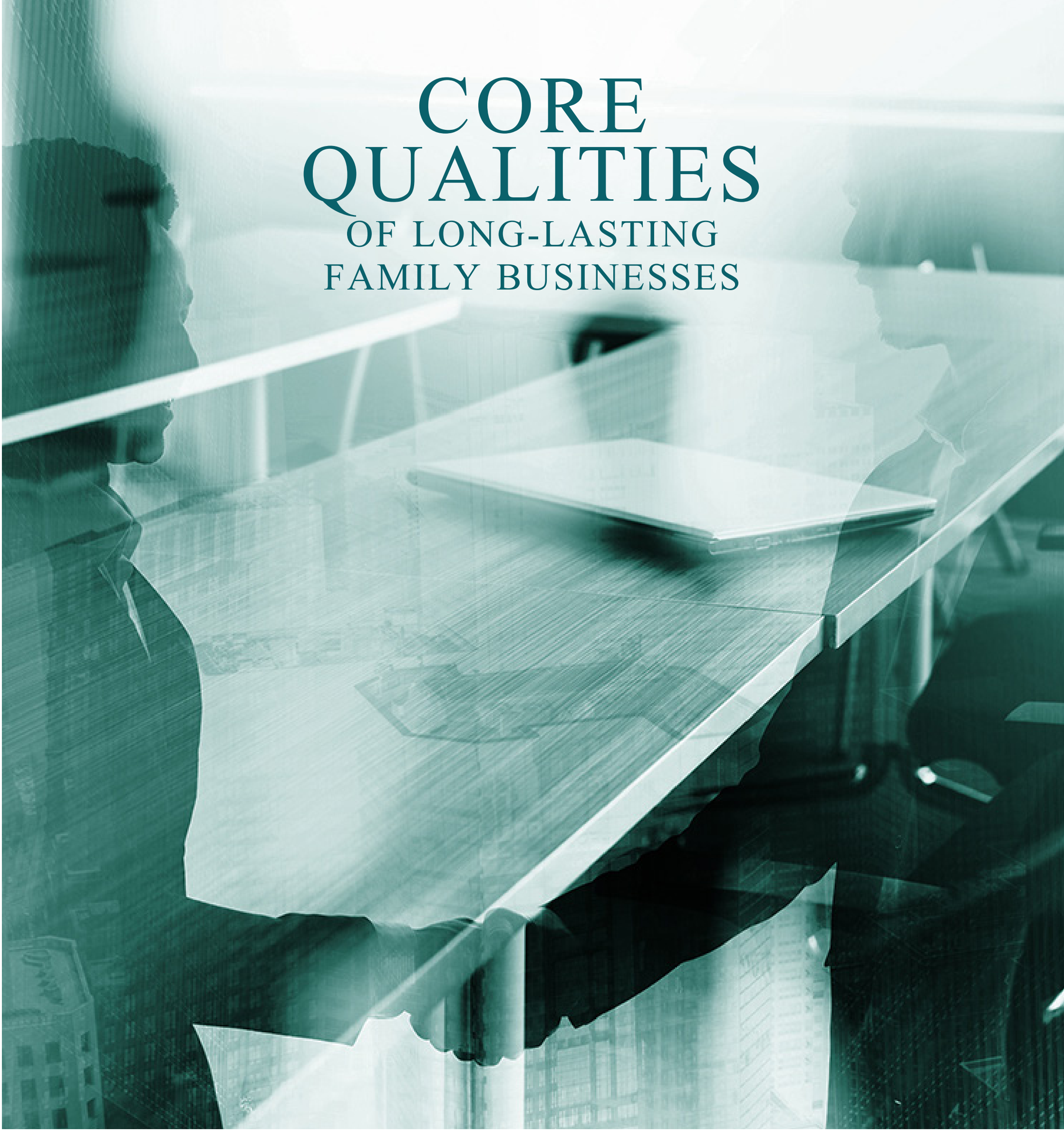
CORE QUALITIES
OF LONG-LASTING FAMILY BUSINESSES



THE RESULTS OF A SMALL, BUT REVEALING STUDY

BY TREVOR DICKINSON

FAMILY LEGACIES

LESSONS LEARNED
FROM LONG-LASTING FAMILIES IN BUSINESS

As the owner of a fourth-generation family business, I understand - perhaps better than most - the challenges faced by business families during periods of transition or conflict. While our family business has stood the test of time, it's not been without its challenges.

And it breaks my heart when I see business families struggle, which is why I founded Family Legacies in 2020, after a 30-year career with our 110-year-old family business. I have developed a passion for helping family businesses, so that they can resolve the critical issues of keeping the family and the business successful and leaving a legacy for future generations.

The mantra of the family business industry is that

"...only about one third of family firms survive to the second generation; at least two thirds fail to make it that far to pass on the business to the third generation."

Despite the value-laden assumptions that we reinforce every time we use the words succeed; survive; and fail; no one has calculated how many that "made it" through a transition trapped their successors in misery. Our family business would be deemed to be one of those that "made it".

"The loss of sense of purpose can result in the end of family ownership or in a major shift in the way a business-owning family perceives its role." - JOHN WARD (Perpetuating the Family Business)

In our family business, after a rather unsuccessful transition, I experienced a loss of sense of purpose, together with a major shift in the way I perceived my role. This resulted in me being less inclined to perpetuate our business to future generations.

Kenneth Kaye's seminal article When the Family Business is a Sickness, resonated with me as I experienced many parallels in our family business. Says Kenneth: [and I would like to reference the following:]

"In many cases the family business is not the patient, but an illness afflicting the family. There are cases in which keeping it going means keeping the family sick. These owners use their business to retard the normal development of their children and themselves. Their health as a family business cannot be "restored" because it isn't healthy to them to be a family business."

"A family-owned business can enable a dysfunctional family to maintain its dysfunction over decades, for generations; resisting individuals' efforts to achieve healthier roles and relationships." In much the same way, our family business maintained its dysfunction over decades, for generations.

“Family businesses are most often formed by people trying to resolve a problem in their relationship with a particular relative, or to fix a dysfunction in their whole family. Tragically, it doesn’t work. It only perpetuates the problem, and sometimes makes it worse.”

“Dependency is a central issue in many family firms. Inability to leave is the surest sign that a business is an addiction rather than a healthy shared enterprise. Just as a person is an alcoholic when drinking is no longer a pleasure, but a necessity, someone is addicted to the family business when, without joy or fulfilment, they persist in spite of pain.

The way out seems more terrifying than the dependency is crippling. Some entrepreneurs’ children can be described as “prisoners of the family business”, but also in truth their parents, siblings, or spouses are equally trapped.”

“Most of these people want to do something else. When we challenge them to explore other opportunities, they respond that they cannot afford it. Not missing the message real message here, in that anyone in this position cannot afford the risk of being fully alive.” I could have been described as one of those children of an entrepreneur, feeling a “prisoner of the family business” (refer to Michael Klein’s book, Trapped in the Family Business).

In 2008 (I was 43 and my father was 70), I came to the realisation that my father had no intentions of retiring any time soon. For various reasons, the conflict between my father and I reached an impasse, resulting in me deciding to resign from our family business. To understand father-son work relationships, I read Davis and Tagiuri’s seminal article “Life Stages of Father-Son Work Relationships” and would like to quote the following:

“The social norm is for retirement to occur during a man’s sixties. Although many owner-managers claim to retire around age 65, involvement with their firms often continues for several years afterwards. The son, in his late thirties, say between 35 and 40, when men strive to attain competence, recognition, advancement, and security. Approaching 40, these tasks become very pressing, he urgently seeks independence and recognition. He must become “his own man”. It seems likely that the father-son work relationship in this coincidence of life stages will be difficult since the son’s renewed struggle with authority would overlap with the father’s desire to demonstrate the continuing value of his own authority, skills, ideas, and leadership. The son's emotional state can lead to distorted communication between the two men." The son's emotional state can lead to distorted communication between the two men."

After my father finally deciding to retire in his seventies, for reasons I can't really explain, I decided to acquire our family business. I guess I kept the underlying desire to perpetuate our family business for future generations, after all. After the transition, I led our business for more than ten years and recently appointed a non-family CEO. This afforded me the opportunity to finally pursue my passion to help other family businesses.

I have also come to understand that no matter however powerful the business issues may be, the most significant dilemmas, in terms of reaching for long-lasting success, are seated with the family. The most critical issues facing business-owning families are family-based issues more than they are business-based issues.

Long-lasting, successful family businesses understand two fundamental certainties:
1. They recognize that nearly all family businesses share the same problems and issues.
2. They realize that while most of the issues they face are common to all family businesses, they also understand that different people within the same family business system – that is, a family and its business will see the same issues in predictably different ways.

Such understanding enables a family to realize that (a) "We're not alone"; (b) "We're not strange";and (c) "We can learn from others".

When a family knows that it is not alone in its concerns and is therefore not so odd after all, it gains the confidence it needs to go out into the world to secure the knowledge necessary to perpetuate its business for the long-term benefit of generations to come.

Because of my desire to help family businesses, and my eagerness to learn what types of challenge other families deal with, I decided to conduct research and gain insight. I have the pleasure to share my findings and commentary in this little e-book, and I sincerely hope you'll find it useful.

Trevor Dickinson

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FAMILY VALUES; VISION & MISSION

STATEMENTS

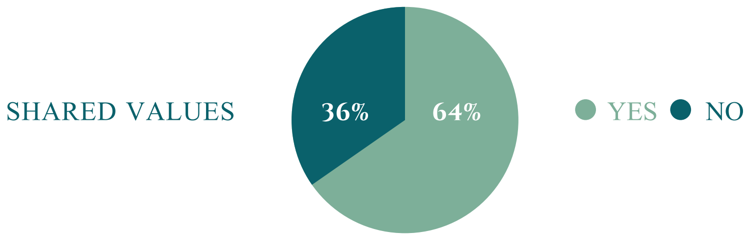
Chapter 1

The most common and one of the most important factors of generative family enterprises, is the family's shared values and core purpose. When applied to the family's business; its conduct as a family; and its conduct toward its community, the family's legacy from earlier generations serves as a framework of values that are taught; shared; and applied in all of the family's dealings.

As you'll appreciate, I was more than pleased to learn that the majority of family businesses do have a shared values and core purpose statement.

RESEARCH QUESTION 1

HAS THE FAMILY ARTICULATED HOW THEIR SHARED VALUES ARE IMPORTANT TO THE FAMILY'S BUSINESS?



Despite all the rhetoric about values these days, few people truly appreciate how values shape our lives: they are the cornerstone of human achievement and commitment, and they are the bedrock of culture - in business and families alike. As such, a business leader must be keenly aware that the financial success of any company ultimately rests upon its culture and the underlying values.

The most successful families have strong values, rooted in members' emotional bonds, blood-ties and shared history. Values underpin decision-making in every core family function, from child-rearing to estate planning.

Ideally, shared values enable family members to derive pleasure and meaning from sustaining cross-generational relationships and striving toward mutual goals.

When an owning family's values form the heart of a business's culture, some vital synergies can arise. In fact, an enduring commitment to shared values is the greatest strength a family can bring to bring business ownership.

Shared values can also help overcome the conflicts inherent in family business ownership. When family and business pull apart over time, as they invariably tend to do, families need a compelling rationale to stick together. Values are the glue that bonds family and business, and they enable family members to overcome challenges.

Values also provide satisfying answers to such questions as: Why do we work so hard? Why bother passing on the business? Why should we make the sacrifices involved in owning and operating a family business?

The earlier a business leader begins tapping the power and potential strength of shared values in the family and the business, the greater the chances of harmony and long-term success.

Perhaps most important: a dynamic, resilient value system is the most enduring living legacy one generation can leave the next.

As it pertains to your family business, consider the following:

- What are your family's values, and what values do you want the business to promote?
- Does your family business have a vision?
- What does your business stand for?

These questions can be - and ought to be - answered in a clearly defined Family Business Values, Mission & Vision Statement.

Understanding a family's values, clarifying a family's mission, and articulating a clear vision are the major differentiators among those family businesses which prosper and exist longer than the tenure of one generation of owners, and those that do not.

The power of a well-developed Values Statement plays out in the family business in a number of important ways.

For example:

- Laying the bedrock for corporate culture
- Providing a template for decision making
- Inspiring top performance
- Supporting a patent, long-term view
- Developing a stewardship mind-set
- Reducing the cost of capital
- Challenging conventional thinking

- Adapting to change
- Improving strategic planning
- Forging strategic alliances
- Recruiting and retaining employees
- Providing meaning to work

FAMILY

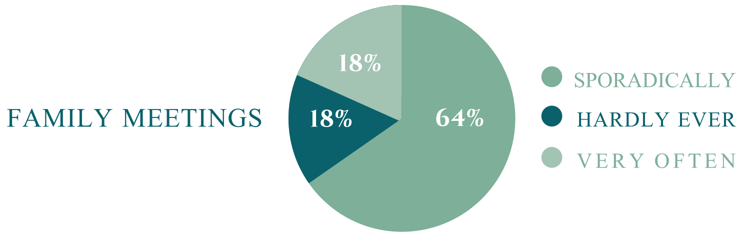
MEETINGS

Chapter 2

Frequent family meetings are one of the factors that correlate significantly with family business longevity. These periodic gatherings bring the family together to share goals and decisions; discuss common problems; learn about the business and preserve family identity; as well as preserve values and traditions. One of the key things that successful, long-lasting, business-owning families do is to hold regular family meetings, typically from one to four times a year.

RESEARCH QUESTION 2

HOW OFTEN DOES THE OWNING FAMILY HAVE REGULAR FAMILY MEETINGS?



This question brought a surprising, and disconcerting result, with 64% of respondents saying family meetings occur only sporadically.

It's important to note that family meetings are distinct from management meetings and shareholder meetings, which are centred on the business. Family meetings, instead, focus on the interests of the family, and their purpose is to provide cohesion of the family and enhance its sense of identity as a family.

At a time when the family has grown larger and become dispersed, and family members are increasingly remote from the business's origins, family meetings can instil a feeling of community and create a sense of family purpose.

Done properly, family meetings address many of the dimensions necessary to the continuity of the family business: articulating the meaning and mission of the family; the education and personal development of younger members; the pleasurable and social aspects of being a family; and planning for the future.

Family meetings can serve as a means of sharing experiences; acculturating new family members such as in-laws; discussing the family's welfare; and sharing the joys and spirit of family philanthropy.

While distinct from business meeting, the family business can be placed on the agenda too, as part of the "meaning and mission" function of family meetings. Discussions can centre on the history of the family business; the family employment policy; or how the family mission statement gets implemented in the business.

Whatever the agenda, planners should keep in mind that the real purpose of family meetings is to give family members a reason to be together and to be supportive of one another, and to share common interests together as a family.

The benefits of effective family meetings:

1. BUILDING A STRONGER FAMILY

   Meetings are a powerful medium for strengthening the family. They are the best way to help family members discover and build on the common ground that unites them.

2. BUILDING A STRONGER BUSINESS

   Family meetings fortify the shareholder base with several positive results. A cohesive, well-informed group of shareholders and family successors is far more likely to promote effective planning for succession and other major events. Signs that the family shares a sense of commitment or mission can turn employee uncertainty into a spirit of optimism.

3. PLANNING FOR FUTURE OWNERSHIP

   All family businesses reach crossroads when major decisions arise about the future of the business; the owners' estate; leadership succession, or the role of the family in the business. None of these plans for estate, strategic or succession issues can be laid without a sense of the family's intentions and commitment to the business.

4. PLANNING FAMILY PARTICIPATION

   The role of family members in the business is an important and complex issue in many family enterprises. Which family members should be allowed to work in the business? Are in-laws welcome? How should family members' titles and authority be determined? How old is too old to enter the business?

5. MANAGING INHERITED WEALTH

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6. OPENING UP THE SUCCESSION PROCESS

Family meetings provide a vehicle for informing members about how the succession process works and how a decision is made. Explaining the succession decision as the result of an objective, thoughtful procedure with a planned development program as well as criteria and goals, can do much to prevent misunderstandings and resentment.

7. PRESERVING THE FAMILY TRADITION AND HISTORY

Some families begin meeting to record and save the family history before it is lost forever. Presentations by older members can spark programs on family history and traditions. These activities often spark a renewed awareness of the family as a treasure and a resource, which could result in regular reunions, other social gatherings, or new charitable initiatives.

8. PROFESSIONALISING THE BUSINESS

Family meetings help educate the family about the importance of non-family executives; the value of an outside board; improvements in financial reporting and planning; and other issues that arise as a business undergoes professionalisation. The meetings can also help individual family members see their career paths more clearly in the context of overall management.

9. MANAGING RELATIONSHIPS BETWEEN FAMILY AND BOARD OF DIRECTORS

The meetings can help educate family members about the roles of shareholders and directors, including the added value that outside directors can bring to the business.

10. RECOGNISING AND RESOLVING CONFLICT

Family meetings can help air and resolve differences before they become a crisis. A key to successful conflict resolution is for the family members to acknowledge conflict early in the family meeting process, and to realise that it is normal and not something to hide or avoid.

INDEPENDENT BOARD

OF DIRECTORS

Chapter 3

An active independent board has been the single most important element in family-owned businesses, in their effort to reach beyond mere subsistence for enduring excellence. Independent directors are one of the richest and least-used resources available to private companies.

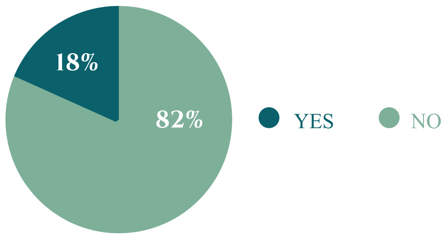
"The hardest thing for business owners to say is, "I need help." It's doubly hard for an entrepreneur, who is seemingly self-reliant to his peers, employees, and family."

~ John Ward, Creating Effective Boards for Private Enterprises.

RESEARCH QUESTION 3

DOES THE BUSINESS HAVE AN INDEPENDENT, OUTSIDE BOARD OF DIRECTORS?

INDEPENDENT BOARD



Only a small percentage of private companies have active boards with independent directors. However, those private and family-owned businesses that do have an external board, consistently find they are terrifically helpful in helping them tackle major issues without robbing them of control, dependence, or any meaningful measure of privacy.

For some, independent directors bring new ideas; perspective; insights; or self-confidence. In other cases, outside directors act as a catalyst for important planning, be it strategic, financial, or succession.

In others, they can serve as a confidential ally to the chief executive in grappling with challenging succession and family issues. Nowhere outside the boardroom can business owners find such a pure, private, and comprehensive laboratory for testing embryonic ideas, seeking support and advise from respected peers, and weighing such sensitive long-term issues as estate planning, executive compensation, succession planning, and shareholder relations.

The benefits to a family business of having an active board of directors, which includes a good balance of independent directors are numerous. Some examples are:

1. IN-HOUSE EXPERIENCE, EXPERTISE & EMPATHY
   Independent directors can bring a wealth of experience to a business. A board of risk-taking peers - others who already have passed the milestones that lay ahead for your business - can ease the fear of the unknown and help anticipate challenges. Directors who have come from a family business know first-hand what challenges a family business can face, and they can genuinely empathise with you about the dilemmas these challenges may create for you in your leadership role.

2. SELF-DISCIPLINE AND ACCOUNTABILITY
   As much as many family business owners relish autonomy, many find accountability is a crucial tool in helping to preserve it. If a family business is transparent with its goals, the likelihood of achieving those goals increases significantly. Many of these owners even ask their boards to review their own performance annually against the goals they have set for themselves. Directors can also prove particularly effective in reassuring owners who are not active in the business.

3. A SOUNDING BOARD
   An experienced board can serve as a valuable sounding board. Like most anyone else, family business owners are full of ideas, ranging from great to mediocre. What many of them lack is a sounding board to help evaluate those ideas – a panel that is knowledgeable and objective and will listen and react honestly, appropriately, and without unintended consequences. The value of a sounding board for senior management has been cited as an extremely valuable benefit, ranking second only to "giving input on strategic direction" on a list of benefits of an independent board.

4. HONEST, OBJECTIVE OPINIONS
   A well-chosen board can provide an excellent forum for gleaning honest, objective opinions. Family business owners and senior executives exert little power or influence over good board members. Effective directors have nothing to prove or gain by promoting their own interests; nor are directors' fees enough to make them beholden to the company. Instead, board members typically seek the satisfaction of associating with other directors, providing help, and learning

something in the process. They enjoy bringing thoughtful and objective insight to an important discussion with peers.

5. STRATEGIC PLANNING AND COUNSEL

It is management's role – not the board's – to set strategy. But many family business owners find independent directors helpful in prompting them to begin strategic planning; in helping with the process; and in monitoring the implementation of the plan.

6. INSIGHT INTO KEY PEOPLE

Many family business owners are eager for help in evaluating key people. This interaction gives directors an opportunity to offer candid reactions that can help family business leaders make important personnel and management decisions. These insights become critically important when evaluating next-generation members for leadership positions, or investigating the possibility of bringing in non-family leadership for the first time. Often, directors help set up management development and evaluation systems that provide greater control over employee performance. Directors can also help evaluate providers of professional services, such as accountants, attorneys, and bankers.

7. CHALLENGING AND PROVOCATIVE QUESTIONS

At an effective board meeting, many sentences and statements end in question marks. Family businesses benefit quite a lot from provocative questions that help them learn more. And the independent director, free from office politics, self-interest, and other sources of bias, can unearth good questions that may never even occur to management or family insiders. The process is not always comfortable, and it can mean extra management work, but it almost always improves the quality of the decision-making process

8. CONFIDENTIAL AND EMPATHIC COUNSEL

Family business owners have unusual empathy for each other. On an airplane or at a party, two family business owners usually manage to find each other and share stories. This almost instinctive relationship carries through to the board-room, and it can be a unique resource to anyone facing issues that are too big, sensitive, or troubling to discuss with anyone else. Family business owners often develop deep trust in their independent directors. The empathy independent directors have for the leader and owners of a family business confronting an intense dilemma, will enable them to lighten the mood in a way no others could.

9. CREATIVE THINKING AND DECISION-MAKING

The unique perspective of the boardroom can engender creative new approaches to old problems. Effective independent directors bring to the table the ability to see a problem from different points of view. The result is often a fresh and sometimes liberating perspective. While the CEO might not hope for constant brilliance from the board, this forum offers the freedom to brainstorm ideas that evoke different perspectives, thinking laterally, drawing relationships among seemingly unrelated factors, and making connections among analogous situations and problems. All these are important parts of the creative process that will lead to better solutions. In essence, the board can help family businesses approach varied issues with fresh perspective and thinking – in effect, helping them to work on, not merely in, their business.

10. VALUABLE CORPORATE RELATIONS

Many family businesses intent on improving planning and decision-making at their companies, discover their independent boards have an unforeseen benefit: better corporate relations with constituents, ranging from employees; supplier; and customer; to lenders and the community at large. The senior management's willingness to be accountable to a board of respected peers carries great weight with employees, customers, and others. It is an emblem of senior management's dedication to the business and awareness of personal limitations – a commitment to professionalism. All these factors can help in recruiting top job candidates and retaining valued employees.

The presence of an active independent board sends a clear signal to all of the company's constituencies that the family shares certain fundamental core values of review, accountability, and disclosure. The mere existence of the board suggests the family is open-minded, unafraid to expose its vulnerabilities, and committed to the long-term success and perpetuation of the business, rather than short-term profit or perks to benefit the owners. In a larger sense, the existence of an independent board is a symbol of the family's awareness that ownership is both a privilege and a responsibility.

ATTRACT THE MOST COMPETENT

FAMILY MEMBERS & SELECTIVE FAMILY EMPLOYMENT

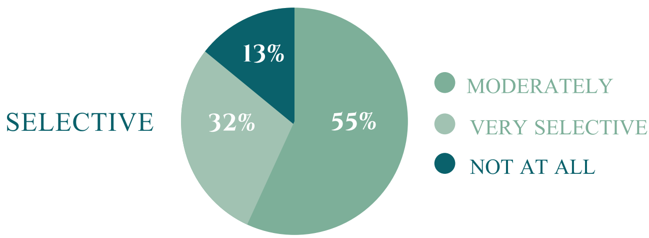
Chapter 4

One of the most difficult questions a family business faces is: how do you attract the best members of the family in the next generation into the business to become its future leader?

It's a particularly prickly question when you are going from Generation 1 to Generation 2: competent young family members know they have opportunities elsewhere and may not want to live in the shadow of a heroic Generation 1 leader. They may also know that Mom or Dad is the kind of person who is reluctant to let go and that it may be a long wait before the next generation can take over.

RESEARCH QUESTION 4

IS THE FAMILY SELECTIVE ABOUT WHICH FAMILY MEMBERS ARE QUALIFIED TO WORK IN THE BUSINESS?



If the family does not embrace the Principle of Merit, the family members most likely to come into the family firm are the ones who are least competent in business, while the most competent family members will look for challenging opportunities elsewhere.

The most competent family members have options, and they will want to go where their achievements are recognized. They may see that the family business is not run in a professional way, and they don't want the burden of carrying incompetent family members and trying to make the business successful in spite of them. The sad result is that the business loses the very people it needs to keep it healthy and thriving.

To achieve the goal of becoming a long-lasting, successful business, you have to give thought to how you are going to make your business attractive to the most promising next-generation family members.

What would it take to make them see the family business as an interesting career opportunity?

This is precisely why you have to begin taking action when those family members are quite young. In many cases however, families start their children with after-school and vacation jobs. Very likely, they are given menial work – a job on the shop floor – so that they have to prove they can do what entry-level employees do. While it's good for them to get that basic experience, what will truly ignite their enthusiasm about the company is to give them a special project as well, such as conducting some simple research or drafting a report. Or you could take your son or daughter on a trip to visit customers or to attend a trade show.

Many parents insist that their children start at the bottom and work their way up in the company. That's fine, as long as the parents aren't obsessive about it. Young family members should have the opportunity to learn what it's like to do the tough work of hourly employees. At the same time, you want to give exciting and attractive opportunities to sons and daughters who have the greatest enthusiasm about the business and show the greatest promise.

As children become young adults, compensation takes on increasing importance and must be carefully thought through. A son who's a newly qualified MBA will be resentful if you insist that he has to start at the bottom "Because that's the way things work around here and there are no exceptions." I recollect when I enrolled for my MBA, by which time I had been working in our family business for more than 10 years that my father had contemplated whether it was necessary to remunerate me while I was busy with my studies. Something which you'll understand I didn't think fair or just.

As you consider what's appropriate for your family and your business, think about how your employment and management philosophies, and the way you approach young family members, will affect the ones you most want to come into the business.

When the most successful family businesses develop their employment policies, they aim for a workable balance. One the one hand, they know that it's better to have a higher standard of entry into the business for family members than a lower one, for a variety of reasons – to encourage only the most competent family members to join the business, for example, and to assure that there is room for upward career paths for able, non-family employees.

At the same time, successful family firms know they don't want to be so selective that they discourage any and all family members from joining the company and aspiring to management. If there are no family members in management, after all, the business will likely cease being a family business. On the whole, however, with each new generation, successful families lean in the direction of being a little more selective when it comes to hiring family members. They may require somewhat more outside work experience than they would require of non-family employees, or a little more education.

To regulate the number of family members - especially if it's a growing family - they may institute rules, such as "no in-laws in the business," or they may permit only one person per couple to work in the company, and sometimes it's the in-law, not the blood relative, who gets the privilege.

They may also adopt policies to discourage family members from coming and going or from having part-time jobs. Long-lasting companies develop their employment policies thoughtfully and carefully, and with much deliberation. They understand that setting the qualifications for entry a little higher for family members helps ensure the business's strength and survival for the long term.

STEWARDSHIP

OF THE FAMILY BUSINESS

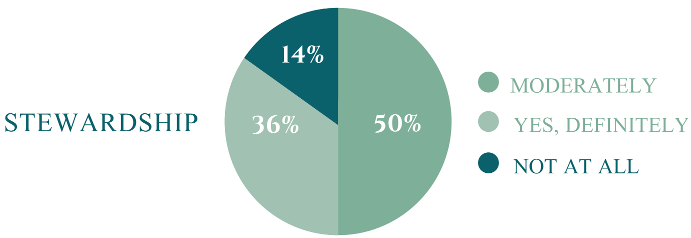
An attitude of stewardship toward ownership is the most important value in those families that are successful in passing businesses from one generation to the next. To be a good steward is to take personal responsibility for leaving resources better than they were when they came into your care.

Chapter 5

Stewardship springs from the ancient idea that the wise management and passing on of property and privilege is an honourable role that brings meaning and pride to the steward. An entrepreneur or owner who values stewardship believes it is his or her duty, responsibility and privilege, to pass the business on to others, for them to build and serve in similar fashion, creating a process of multi-generational continual improvement and progress.

RESEARCH QUESTION 5

DO YOU FEEL STEWARDSHIP IN THE BUSINESS IS GIVEN SUFFICIENT ATTENTION?



This question too brought results that cause me great concern: an average of only 14% explains why so many family businesses struggle, or fail.

Clearly, the values of stewardship and proprietorship are polar opposites. In proprietorship, the positive emphasis is on self. In stewardship, the positive emphasis in on benefiting others in the future.

An owner who has a proprietary attitude believes, "This is my business, to do with whatever I wish. I invested the business, I suffered for the business, I built the business. If I want the business to serve my personal pleasure, I can have that. But if I don't, that's my decision too."

Although during my father's tenure as CEO, our family business was deemed to be a third-generation family business, my father adopted a proprietorship attitude stating "This is my company and I will do with it whatever I wish. If you want to one day own this business, you will have to buy it from me."

I was understandably disappointed, in that my values are such that "You don't own a family business, you borrow it from your grandchildren", as per Dennis Jaffe. I furthermore believe that if we are privileged to lead a family business, we should be good stewards and custodians of our family's legacy, taking personal responsibility for leaving the business better than it was when it came into our care.

This central principle of stewardship explains more about the success of family business than any other single value. Business leaders who see themselves as proprietors will at some point, when they have all they need or want, have no reason to continue growing the business, taking risks or looking for opportunities. In contrast, business leaders who value stewardship are truly committed to the perpetual growth of the business. They are motivated to continue to take risks, looking for opportunities and working extra hard, and they continually find meaning in doing so.

Business owners who embrace stewardship are motivated to submit to the difficult process of succession. Stewardship encourages them to prepare a successor (or several successors). It helps them over the hurdle of giving up power in the business. It helps them take the difficult step of relinquishing control over the family. And, it helps them teach younger family members to lead the way.

An attitude of stewardship empowers business owners as parents, too. Families that believe in proprietorship risk creating a sense of entitlement in their children, because the perspective that children observe around them is a self-centered one. Families who believe in stewardship however, have an opportunity to pass on a more generous, future-directed perspective. This equips the children of successful, wealthy business families to cope better with inherited wealth and privilege.

The pace of business is so fast today that a new kind of leader is needed for family businesses. Typically, a family business CEO leads a company for 20 or 30 years or more. In the most common pattern, an entrepreneur, often after much trial and error, hits upon an idea that clicks with a market opportunity. The entrepreneur builds that idea into a success, and runs with that success until it peaks out. The business then goes into a long period of stagnation.

If the business is fortunate, the next-generation leader comes along and creates a success all over again. In other words, the classic pattern of the family business that is able to grow from generation to generation is that each leader creates and grows one strategic success, and then it stagnates; the next-generation leader comes along and does the same thing. Each generation, then, brings about its own strategic renewal.

However, this pattern no longer represents a viable model. A family business cannot endure in an environment where competition is changing and intensifying at a tremendous pace unless it is led in a way that it can renew its strategy more often than it changes leaders. The head of a family business today must be able to lead an organisation through two, three or four waves of strategic renewal.

In organisations with the power to persist through turbulent eras, one finds leaders who live as if they were stewards of a legacy — the culture, mission, and founding spirit of the organisation. These legacy leaders have the ability to weave a thread of constancy through times of peril.

Five attributes characterise legacy leaders:

- Their work is a vocation
- They possess a moral code
- They are committed to stewardship
- They have a bias for building
- They instil hope.

THEIR WORK IS A VOCATION

Legacy leaders often unconsciously develop a central theme in their lives for many years before they recognise it. As a leader becomes aware of a purpose that resonates for themselves, this deepening conviction will cause their leadership to have increasing impact. But having a defining purpose in one's life is not sufficient in itself. A leader's purpose must be transcendent: it must elevate others to become more than they are and inspire them to sacrifice for the common good. That defining purpose must also be accompanied by constancy of purpose. A leader who is mercurial, or who embraces the fleeting over the enduring, will have a utilitarian value for an organisation at certain moments in its history - but such a leader is not likely to leave a legacy.

THEY POSSESS A MORAL CODE

A legacy leader possesses a personal moral code which, over time, will dominate the organisation's moral behaviour. The leader's moral code will be reflected throughout the organisation, from thoughtful and informed decision making; to the development of reliable; respectful relationships throughout the organisation; to an obsessive attention to quality and service to customers. The leader's moral code breathes life into the institutional mission, and if it is inconsistent with the stated business purpose, the latter will erode.

Eventually, the organisation will become morally bankrupt. A legacy leader's behaviour is rightly centred on correct decision making. However, his or her personal behaviour, and the work of making decisions with others, are centred in respect for the individual. Ultimately, the moral purpose of the organisation is embodied in the daily behaviour of the leader. The leader who leaves a legacy derives personal and professional satisfaction from relationships with individuals, in balance with satisfaction with results.

THEY ARE COMMITTED TO STEWARDSHIP

Legacy leaders see themselves as stewards of the business. Even though they may have absolute control of the company, they are not possessive of it. They depersonalise themselves from the business and regard it as an institution worth preserving in its own right. They adopt the philosophy as described in Jaffe's *Borrowed from Your Grandchildren: The Evolution of the 100-Year Family Enterprises.*

They understand that status is not so much a business proposition as it is a legacy from past citizens, who founded the mission. Therefore, the leader is the current steward of a concept crafted by individuals who were dedicated to community well-being. The legacy leader uses this stewardship to inspire stakeholders with a sense of unchanging purpose. Legacy leaders reach for inspiration, articulate the purpose and meaning of the work of the organisation, and, in doing so, elevate the values and behaviours of others.

THEY HAVE A BIAS FOR BUILDING

Legacy leaders are generally builders, and their building may manifest itself in physical facilities, but also in defining new systems that improve on the old. It may show itself as a new capacity in the organisation that will enable it to survive - perhaps a new core competency. Because the work of transforming institutions is long and arduous, legacy leaders adopt a long-term approach, patiently removing obstacles to worthy accomplishments.

THEY INSTIL HOPE

Legacy leaders also instil hope. Hope is always a transcendent element of hard-won victories. Leaders with hope refuse to give up on solving apparently unsolvable conflicts and refuse to settle for short-term success. It is more than vision, which, while necessary, is not quite the language of motivation. It is vision with a "why" - or purpose - attached. Those who nurture hope nurture dreams, and these leaders nurture the development of individuals to uncommon accomplishments.

MANY NON-FAMILY

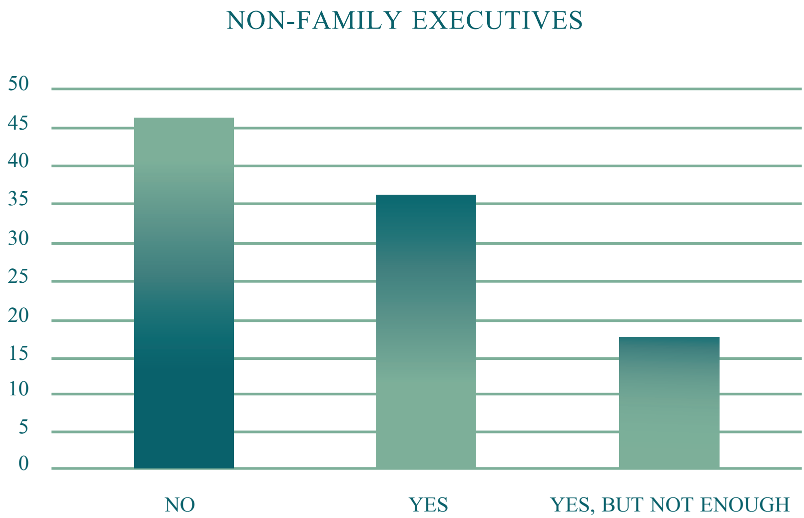
EXECUTIVES

One of the greatest challenges to family business growth is the willingness and ability to depend on executives who are not family members. Whether non-family executives are hired from outside the company or promoted from within, the issues are much the same: choosing the right person for the job and managing him or her in such a way as to mutually benefit the company and the non-family executive. All growing family businesses eventually face the need to attract top-level talent from outside of the family. The business will need the energy and ideas that only outsiders can provide.

Chapter 6

RESEARCH QUESTION 6

DOES THE BUSINESS RELY UPON AN IMPORTANT CADRE OF NON-FAMILY EXECUTIVES?



As a family business leader, and especially if you're the CEO, it is important to recognize the many ways that non-family executives benefit a family business. Non-family executives enable your business to grow. If executive positions are limited to family members, the business would be narrowly confined and, by necessity, would have to stay small.

Business growth requires a larger, deeper pool of qualified management talent than any one family can realistically produce. In addition, good, well-chosen, and wisely-managed non-family executives help your company keep its competitive edge.

Hardworking professional non-family managers set an example for other employees to follow, including up-and-coming family members. If they come from other companies, they bring to your business the knowledge, experience and discipline that they gained elsewhere.

Furthermore, your company gains the advantage of their ideas - ideas that you might not come by if you limit your executive team to an inner circle of family members.

Any company can benefit from diversity of thinking, and when fresh ideas come from outside the family and decision making is shared with talented non-family people, your company stands a better chance of keeping an innovative edge and meeting its strategic challenges.

Beyond these broad and vital benefits, non-family executives can play a number of valuable roles in a family firm. These include, but are not limited to the following:

1. SERVING AS AN ALTER EGO OR "CONSIGLIERE" TO THE FOUNDER / CEO

   In this role, the non-family manager embraces the family and its culture and values as if they were his or her own. While complementing the CEO's skills, the non-family executive also promotes the family culture to non-family employees and assures them that the family is trustworthy, solid and strong.

2. STRENGTHENING THE COMPANY BY ASSISTING WITH DECISION MAKING AND STRATEGIC PLANNING

   Founders tend to work in spurts of creative genius and need stable implementers who can pick up the pieces, transfer the strategy to other people, and build support for ideas.

3. SUPPORTING THE SUCCESSION PLANNING PROCESS

   These might include mentoring the next generation and helping to prepare them for leadership, or serving as a bridge between generations when an heir is not available to take over.

4. BEING AN INSURANCE POLICY

   If something happens to the chief executive – a serious illness or an accident, for example – a trusted non-family executive can step in and run the company until the CEO's return.

5. SERVING AS AN "ADOPTIVE" SON OR DAUGHTER

   When business owners have no successors, they may want the emotional satisfaction of having somebody that they like and believe in growing into the leadership position. So sometimes, there's a very constructive and special relationships that builds up between an entrepreneur and a non-family manager.

A family firm not only needs competent family members in the business but also a cadre of strong, non-family managers who can bring fresh thinking, challenge, and a diversity of style and perspective to the organisation. Some families establish guidelines stating; "We don't want more than one-third of the top jobs in the business being held by family members."

Another approach that some successful business families take is to stipulate that there will be more divisions or departments in the company than there are family members to fill them. "We want to have opportunities for non-family people to run profit centres for our company," they reason. "We want them to believe that there's a good career for them here and that there's an opportunity for them to achieve a very high level of responsibility."

Such families want their excellent non-family people to know that they can aspire to the highest ranks of the organisation and they don't need to fear being choked out because of an overabundance of family members. The most successful business owning families believe you need to look at how many family members are already moving up the executive ladder or are expected to come into the business and how many non-family executives it is desirable to have. Then you need to do two things simultaneously; structure your business to make sure you have room for both groups, and design your family employment policies so that you can accommodate both.

Suppose yours is a smaller company and you have a large family. You sense that there are a lot of family members who would be interested in joining the business. In order to save room for talented outsiders, you may have to develop an employment policy that raises the bar even higher for family members, and permits only the best of them to join the company. Some companies go a step farther and look at how they can create room not only for non-family executives that are groomed from within, but also excellent, proven, non-family executives to come into the organisation later in life.

One company's policy provides that one-third of the top jobs can be held by family, one-third are to be held by non-family people who have been promoted through the years from within, and one-third are to be filled by experienced non-family executives who have been hired within the last three to five years. Whatever the approach, successful business families find that bringing in seasoned non-family executives is an excellent way for a family company to gain both wisdom and outside perspective.

REDEMPTION OF OWNERSHIP, OR

"GRACEFUL PRUNING"

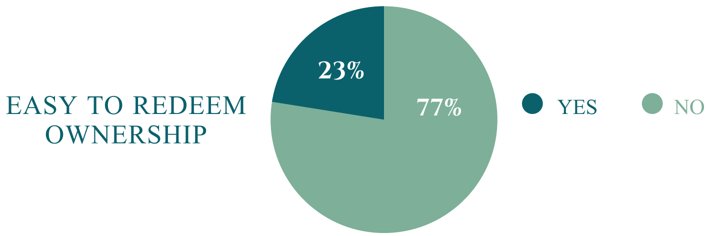
Business-owning families mistakenly often try to protect the business by making it exceedingly difficult and painful for family members to sell their shares. In some cases, shares are assigned a very low valuation and payments may be made only over a long period of time, so as to make selling unattractive. Or, if family members do sell, they're made to feel like they're no longer part of the family – no more invitations to holiday gatherings, for example, or constant reminders about how Grandpa would turn over in his grave if he knew.

Chapter 7

These families reason that discouraging redemptions is better for the business because it doesn't have to come up with the money to buy shares, so the money is available for company growth. Ironically however, the more freedom of exit is available, the less family members will fight for it or even exercise it.

RESEARCH QUESTION 7

ARE THERE EASY WAYS FOR FAMILY MEMBERS TO REDEEM OWNERSHIP IF THEY WISH TO DO SO?



Far-sighted families, however, take a paradoxically different approach. They make it easy for the family members to sell their shares in the business, because they believe that doing so makes sense for many reasons.

In the first place, they know that in the long run, having fewer owners is easier to manage than have many owners. They also recognise that some point, some family members are going to want to sell their shares, but if the family makes it difficult for them to sell, the business will end up with the very thing it doesn't want: some very disgruntled owners. When owners become unhappy, they start to develop grudges or even hatred toward family members who kept them from selling, and the possibility of litigation increases.

Wise families also realise that if a family member is likely to want out, it's less costly to buy him out today, compared to later when the value of the shares has increased. These smart families engage in what may be called "graceful pruning" or "facilitated pruning." They not only make it easy for family members to sell their ownership position, but they are also gracious about it.

They make sure that family members understand they have the privilege of selling and won't be ostracised from the family for doing so.

Nor are they made to feel guilty about selling. As a practical matter, these families recognise that the sellers will be less aggressive in their negotiations when they are treated fairly and pleasantly. Sometimes, there are siblings who you know will not be good team members or contented owners over the long term. In such cases, smart families facilitate their departure from ownership by creating the opportunity for them to very easily and comfortably sell their shares.

Furthermore, perceptive families don't price the shares so cheaply that an unhappy owner can't afford to sell. Instead, a family may pay a premium for the shares, to make it attractive for an individual to leave, confident that the company will grow even more in the next couple of years – especially without the distraction of unhappy owners.

It's important to understand that some family members who say they want to be owners really aren't happy as owners. They may want to be owners because it's the only way they can feel like members of the family or the only way their parents will accept them. Or they know that if they sold, they'd get such a low price for their shares that they'd look foolish to their spouses, their families, and themselves. In such cases, the price of not being an owner is just too high.

After I had worked for our family business for a number of years and had proven my capabilities, I was gifted shares in our family business. However, when in 2008 I resigned and requested my father that the company buy back my shares, he conveyed that "because I was gifted the shares, I would receive no compensation." Despite my father making it exceedingly difficult and painful for me, I did not retract my resignation. A year later, however, I approached my father and offered to acquire the family business from him – clearly not the adoption of an attitude of stewardship.

Every family business needs a good exit clause in both its buy-sell agreement and its valuation and liquidity policy. More important, it needs a good attitude about exits – one that is generous and non-judgemental and that proactively creates opportunities for people to exit whenever there are early signs that that's what they want to do. The ultimate goal is to concentrate ownership in the hands of people who can move the company forward because they share common interest, common goals, and common values.

Chapter 8

FAMILY BUSINESS GOVERNANCE

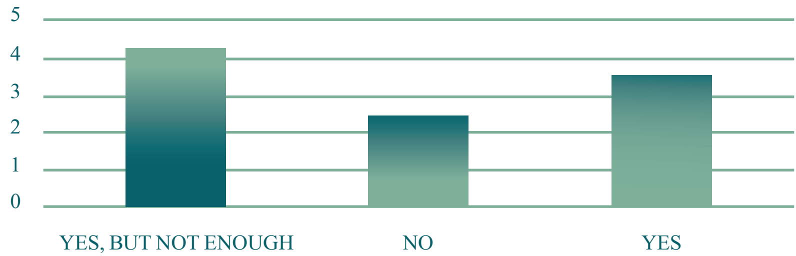
Family business leaders seldom think of themselves as "governing" the business or the family. Yet thoughtful business owners almost universally value the goals of good governance, both in the business and the family: peace; cohesiveness; effective conflict resolution; and freedom from destructive political warfare, to pursue shared objectives and values.

A business that is well-governed is free to work toward the highest and best objectives of business – maximising profit, improving strategy, creating jobs, fostering employee development and serving all stakeholders, including shareholders; employees; customer; supplier; and the community.

RESEARCH QUESTION 8

HAS THE BUSINESS ADOPTED GOVERNANCE POLICIES TO GUIDE DEVELOPMENT AND DECISIONS?

GOVERNANCE POLICIES



While most people do not think of “governance” in a family context, a family that runs smoothly is free to nurture and expand upon the most positive elements of its heritage, such as family values, pride, unity, history, tradition, mutual support and legacies of service.

Families in business together have an especially powerful motivation to govern themselves well. They hold shared interests that are vast and profound, often including a large capital investment, prospects for future employment of themselves and their offspring, and the larger-than-life image of a family business in its community.

Yet, many business-owning families drift unconsciously into haphazard or destructive patterns of decision making and communication that can threaten and even destroy their shared interests.

A desire to work together for the general good of the family and the business is the common glue a growing number of family business owners are using to establish a framework for governance – the principles and processes that enable maximisation of the potential of both the family and the business.

Many owner-managers of family businesses experience a growing sense of isolation in their daily struggle to survive and excel. Many will ultimately sell out under duress or fail, falling victim to a powerful tendency among family businesses to fall short of their potential. It is however well understood by business owners that you have to continuously improve if you are going to compete successfully. Good governance together with an active independent board has been the single most important element in their effort to reach beyond mere subsistence for enduring excellence.

The most successful family businesses operate with strict internal policies and a clearly defined structure. One of the best mechanisms for ensuring that a family business runs like a corporation is the establishment and implementation of an internal Family Business Governance structure. This structure eliminates the danger of allowing family elders to control aspects of the business that are outside the realm of their responsibility.

As closely held entities grow and family-controlled companies become more complex, with more family members involved, directly or indirectly, and as operations mature, all facets of governance need to become more structured, efficient and transparent. Principles, policies and structures need to be formalised and governance structures designed to safeguard the growth and interests of the company and family shareholders, while simultaneously promoting family harmony and welfare.

The development of governance policies and structures to guide development and decisions as a family and business is one of the core qualities of generative family enterprises. In order to achieve their values and sustain their success with emerging generations, the families developed clear, explicit, and often complex structures to regulate family and business activities.

They develop the following tools: family councils to manage family alignment, education, and development; boards to oversee their business and financial enterprises; and family agreements (in the form of constitutions, protocols, and shareholder agreements) to organize their engagement, interactions, and decisions with clear roles and boundaries.

If you want your family business to function efficiently and to enjoy as just as much success as a business not run by members of the same family, it is essential to have a Family Business Governance document. This structure establishes rules and mechanisms for resolving disputes. Family Business Governance also creates an environment with established roles, which will provide peace of mind for all involved family members.

NEXT GENERATION

EARLY EDUCATION

Chapter 9

ENTREPRENEURS IN EVERY GENERATION -

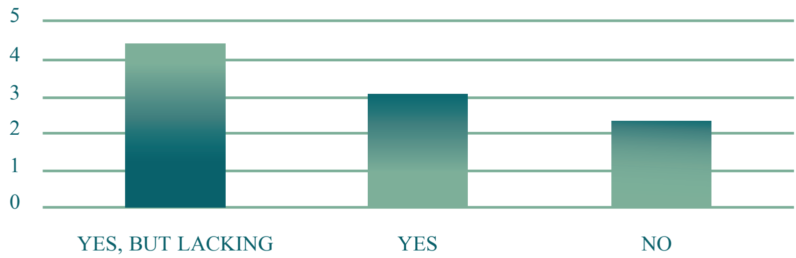
It certainly isn't automatic or easy to instill in the next generation the necessary hunger and talent to find new and better ways to do things such as how to find and serve customers; finance the enterprise; and lead for the future. All are needed to create families and organisations that generate the new ideas, practices, products, and passion that carry across generations.

One barrier to long-term survival is the failure of the current leadership to develop, instill, and select entrepreneurial leadership in the next generations involved in the business. Whether members of the next generation take managerial or non-managerial ownership roles or not: if they don't have the urge and capacity to innovate as needed when the business and societal environment changes, their firms will not thrive. Enterprising families that do well past the founding generation rely on building entrepreneurial and leadership skills of every generation.

RESEARCH QUESTION 9

ARE FAMILY MEMBERS BEING EDUCATED ABOUT THE FAMILY'S BUSINESS LEGACY?

NEXT GENERATION EDUCATION



The family history and legacy often weigh heavily on the psychology of the next generation of family members. Enterprising families know that if family members of the next generation start their career against such backdrop, they will need extra courage and opportunities to understand their true capabilities and interests. Casual interest in trying something out because there might be economic possibility often is not enough to overcome the aura of the family traditions.

Genuine alignment with what really matters to next-generation leaders is the powerful energy source that can fuel these entrepreneurs when the going gets tough, which is inevitable when undertaking new initiatives. The individuals in enterprising families realize the critical importance of helping all family members to discover their true interests and talents. Caran d'Ache's chairman notes that "Unless you are passionate, and you're really willing to join the family business, there is no point in forcing anyone to do so."

Unfortunately, those who join their family business because of need - because they lack confidence in their ability to be productively employed in other spheres - are the weakest leaders of all. In short, unless a person's heart is in it, it just won't work in the long term.

Nothing could be more important to the continuity of a family business than the preparation of next generation leaders – both family and non-family. Yet, career development is often neglected in family firms. Family business founders and CEOs frequently take an attitude of "sink or swim" toward the next generation. "That's how I did it," they may say. Most family business leaders want to nurture next generation development, but do not know where to begin. "Sink or swim" is unlikely to provide an expanding and increasingly complex business with the leadership required for continued success.

Talented leaders may emerge on their own, but odds don't favour that result. To improve the chance of survival and success across generations, a family business should engage in a deliberate program of planned and strategic career development. By definition, career development is a continuous process of building leadership capacity to meet the demands of the future.

As businesses become more demanding and complex, leadership development becomes both more critical and harder to achieve. A family business may have a cherished vision and ambitious long-term strategies, but unless today's leaders recognize the need to give the next generation training and experience, dreams of family harmony and success can painfully pass away.

The education of the rising generation about responsibility, stewardship, and values is also one of the core qualities of generative family enterprises. These families see their new generations as the human capital to continue and build upon their success. The next generation is a resource, and they have to live and breathe the goals and commitment to the family enterprise. From the time the members of the next generation are children, these families invest in the education and development of each new generation of their extended family.

Many of the young people who are interested in and enthusiastic about going into the family business are those who have had exposure to the business from an early age. During the 1st generation, children almost can't escape exposure to the business. That's all they ever hear about from their parents, and, more likely than not, they are expected to join the family business when they are old enough.

By the 2nd and 3rd generations however, parents have to make a conscious effort to create opportunities for educating younger children about business. They may also have to temper their fear that exposing the kids to the business is tantamount to putting pressure on them to choose it as a career. If the previous generation pushed them into joining the business, they don't want to brainwash their own kids into making the same choice, and they bend over backward to avoid doing so. They may even shelter their children from having any interaction with the business.

Several other factors come into play by the 2nd and 3rd generations: The business is successful. The family is wealthy, and the 3rd generation youngsters are growing up in an atmosphere of affluence – attending private schools, taking music lessons, and the like. By this time, some members of the family don't even live in the community where the business is located. It's very possible at this stage that many family members get virtually no exposure to the business as they grow up because they don't work in it or they live in another town.

However, even though the children may never work in the business, it is possible they become owners. And you want them to be proud and interested owners who understand and value their heritage. In order to make that happen, you need to instill in them an appreciation for the business. You can do this by giving them a taste of the business – from an early age – in thoughtful, positive, and enjoyable ways. You can begin when they are age 8 or 9, or even younger, and continue with age-appropriate activities as the children grow older.

Successful business families also find it useful to begin educating their children in family processes at a relatively young age, even as young as 12 to 14. This means educating them in skills that are important to the family – such as managing inherited wealth or interpersonal skills like listening and communicating. When the kids are old enough, perhaps 14 to 16, employees from the business can be invited to family meetings to make presentations to them about the business. As they grow older, your children can do paid work in the company.

Often, you'll find that the most committed adults in a family business like to tell stories of the grunt work they did as teenagers – cleaning up the yard or helping unload the delivery truck.

However, educating children about their family's business is not the same as pressuring them to join. Positive exposure encourages their pride in a company they may have ownership in someday, whether or not they work in it. By exposing your children to the business and not sheltering them from it, you give them the real freedom to choose their future by making sure they have enough information about the company on which to make an informed decision whether to embrace it or pursue a different goal. Paradoxically, the earlier the exposure coupled with no pressure to join, the more likely they will join someday.

ABOUT

THE AUTHOR

Trevor Dickinson

Three decades of experience,
helping legacy leaders

As a neutral but empathetic advisor and consultant, my role is to work systematically in that challenging space between business, family, and ownership systems, identifying and resolving tensions as well as supporting and enabling the business and personal aspirations of the owners.

My advanced training as a family business advisor, executive coach, and certified civil and commercial mediator, as well as my personal experience, enables me to work collaboratively with business families and their trusted professional advisors, in response to either a crisis situation or as part of a planned transition programme.

With thirty years' experience, coupled with my roles as CEO & Founder of Family Legacies, Chairman of Dickinson Group of Companies, member of Institute of Directors, Family Firm Institute, Exit Planning Institute, Institute of Advisors, Family Business Australia, International Meditation Institute certified mediator, together with my postgraduate, executive and certificate programmes, I bring a combination of theory and practice, empathy and experience to your needs.

Through my first-hand experience - both as a member of a family business as well as consulting to family businesses - together with my advanced training and education as a family business advisor, I've gained significant insights in respect to the core qualities and lessons learned by long-lasting families in business.

If your family has had enough of strife, warring, and conflict, or your family business is preparing for significant events such as a merger, drafting a family charter, or ownership transition and you need the help of a seasoned advisor whose knowledge isn't just from books, but hands on:

Do please contact me for an appointment.

To your legacy!

Securing Your Legacy
for Future Generations

+27 (82) 567 5037 trevor@family-legacies.com www.family-legacies.com