

Strategic Planning for the Family in Business

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Executive Summary

For a family business, often the most precious asset of a family, to survive into the next generation is highly problematic. This article presents a model of how the family can enhance the chances of survival by engaging in a two-dimensional planning process. The **family** must determine its wishes for the future by defining their goals and values for the business, rules for family participation, plans for development of young family members, and policies for ownership transfer. By convening a Council of family members, the family can make their wishes clear and explicit. The **business** also can develop an active Board that generates a strategic plan for the business future, that represents the family shareholders' needs, and links them with the business challenges and realities. To support a healthy future for the business, the financial planner can engage the family in both levels of planning.

Balancing the Concerns of the Family and Business

The most important “member” in a family’s future may not be a person at all—but a small or large business entity, the family business. It can take many forms, from a restaurant or a small business, to a large public company or family office that acts as a holding company for multiple ventures. Whatever form it takes, the family’s business looms large in planning for the family’s future. In doing estate planning, the business owner is may only be concerned with who will inherit the business, and how it will be transferred. In this article, based on my work as an advisor to family businesses over many years, I want to suggest that proper financial planning for the future of a family business must include consideration of two dimensions—the family’s desires and intentions for the business, and strategic planning for the business future.

Statistics gathered by the Family Firm Institute (www.ffi.org) suggest that a family firm only has a 1 in 3 chance of reaching the second generation. Yet few business founders believe that their business will be the one to fail. The reasons why so many family businesses fail to survive have to do with the ways that **family considerations can overwhelm business realities, and their consequent lack of focus on the need for business renewal.** This dynamic arises from the unique quality of the family business—that people from different generations of the same family may share management and ownership in the business. Not every family member inherits ownership, and not every family member works in the business. But those who do, or want to, often make their decisions based on personal rather than business considerations.

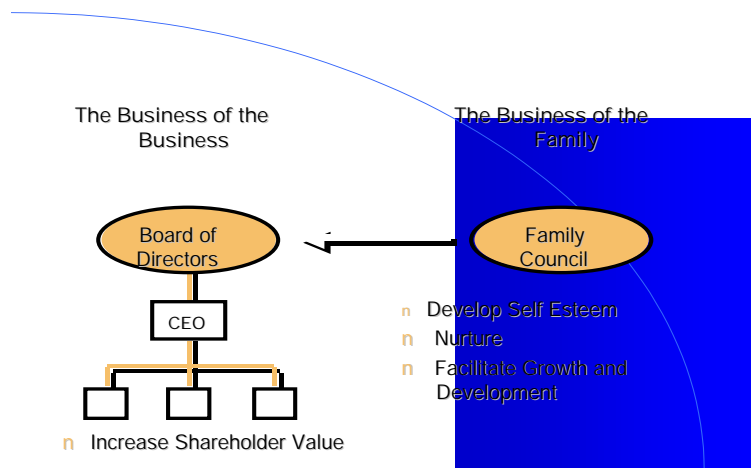
Families and businesses often have different criteria for making decisions, which negatively affect the business. Deciding to hire someone because they are a family member, for example, can lead to unqualified employees with major responsibilities. Dividing income from a family business among successors can also lead to conflict, however it is done. In a family, parents usually want to treat their offspring equally, while a business usually pays for the job and performance. So, when siblings work in a business, are they compensated according to family values, in equal measure, or for the work they do? Added to that, if a family member is an owner, they are entitled to dividends and distributions. Families find themselves in value conflicts between the business and family. In a similar way, authority in a family is defined by birth order, while a family member may have different seniority, capability and fit in a business. Can a younger sister supervise her big brother? Can one sibling fire another? This is difficult in a family business.

The key strategic planning challenge planning for the family business is to help the family negotiate the boundary and value differences, between being a family and being a business. If they make agreements covering these areas, and understand and agree on why they are there, the possibility of destructive conflict is diminished. To achieve this, the family can utilize two overlapping, interrelated, but quite different planning teams. The first is a **Council** of family members, whose task is to deal with “the Business of the Family,” the development of a new generation of family members, regulating the family

members' involvement in the business, and aligning the business with the family's plans. The Council expresses the will of the family in relation to its business.

But the family council alone cannot design the future of a strong family business. The planning process must also deal with business realities, helping the business develop and innovate along paths that are sometimes difficult for a family to allow. This is achieved by convening a pro-active business **Board of Directors** who represent the needs of the business. Different elements of planning are carried out by each of these entities.

The Council contains the actual members of the family (frequently including in-laws, young adults and family members with no connection to the business), while the Board contains the representatives of the family owners to whom are delegated the oversight and development of the business. While some family members may be members of both groups, each one has its own function. These two groups have something like the following relationship:



Financial planners are ideally suited to present such complexity to the family. As the family's advisor, they safeguard their major assets, of which the one of greatest value is the business. In planning for a family with a business, the first step is to help the family understand the need for a separate family Council in addition to the business' Board of Directors. The following sections present the key issues that the Council and the Board may take on to plan effectively.

The Work of the Family Council

Planning is not a natural function for a family. Family members spend a lot of time bumping up against each other, and rather than plan, they try to find a fast way to restore family harmony. They develop habits of avoiding issues, denying problems, and keeping secrets from each other. If an issue is controversial or upsetting, families often learn not to talk about it, or to talk with everyone but the person in question. Even relatively functional families limit their communication with each other. This becomes a problem for planning.

Enter a financial planner who begins to ask controversial questions:

- Who will run the business in the future?
- Who will own it?
- What are the expectations of financial participation for those who work in the business and those who don't?
- How will decisions be made?

These questions produce difficulties because the family is not organized to answer these questions as a business. They tend to act as a family, dealing with each one as a single instance rather than anticipating them and making binding policies and decisions. The financial planner can to guide them through the process of answering them.

The key family members—parents/business owners and adult siblings, perhaps spouses (who often work in the business)—must gather to define answers to these questions. This is often something that the family has not done. The business owner and the few family members who work in the business tend to take care of the business on their own. The financial planner or other business advisor will have to make the case to the family that they need to convene as a Council to discuss these issues. Elsewhere, I have presented the process of convening a family meeting, organizing it and helping the family negotiate conflict (Jaffe, 2004, Jaffe, Goldbart and DiFuria, 2003).

But just getting together may challenge the family's established communication and power structures. For example, if a family is divided about which sibling should become the next CEO of the business, or does not want to talk about who is being paid what by the business, they will resist getting together for a discussion of the future. Some business owners will say—"This is my decision, and mine alone, so why should my children be involved?" As a planner, you might agree that this is so, but suggest that since there is so much potential for controversy, the family needs to get together to discuss the plans, or to hear and react to plans formed by the founder.

The family council must plan to secure the future of their family enterprises in four areas:

- Mission and Values
- Next Generation Development Plan
- Guidelines for Family Involvement
- Ownership and Transfer Policies

Mission and Values. Planning is based on assumptions, and many family business owners make ones that may not be correct. For example, if a family has a thriving business, they assume that of course their children want it to continue, and to be partners in its ownership and management. But some family members may want other things—they may want to create their own businesses or other careers, and they may want the family's money to support them moving in these directions.

So before deciding the fate of the business, the family has to define its own future goals for each individual, and as a whole. Where does the business fit in? What does the

business stand for? These questions are broader than just the business direction. The family must look at its own values—about generating wealth, spending or saving it, and how it wants to be remembered in the community. The family council can explore the values and intentions of their older generation, and the talents and desires of the younger one. This may lead to conversations about values, money, and desires for the future. This life planning precedes discussion of the business future, because if the family understand each other, and has agreed on their values for the business, they have a framework for deciding how the business should run.

Next Generation Development Plan. When you ask clients what they want from their wealth, they most often say that they want their children to have a good life. They are concerned that their children will not find a focus for their lives, or that they will live only to spend the family wealth. Parents want them to find something useful, worthwhile and fulfilling. To achieve this, each young person can be asked to formulate a Personal Development Plan. If necessary, they might consult a career coach or counselor. While this may not decide the future, it raises questions and brings data into the equation that may take them beyond the obvious choices.

When the family has a business, working there often becomes the path the children want, or feel compelled to choose. Entry into the business is too often an unconscious choice, made for the wrong reasons—obligation or because it is easy. Some members of the next generation do not think beyond it. They enter without outside work experience, and soon they feel (or actually become) unsuited for work anywhere else. They are trapped, and the business is trapped with them.

A family planning their future should ideally ask their heirs to think about what they want to do with their lives, with the business as a choice they make only if it is appropriate. Each family member should have the challenge, and opportunity, to develop their skills. As part of planning for the future, the family should consider how it supports the job and career choices of family members. It may encourage them to think beyond the family's business, which is too often like never leaving home.

Not only the younger generation needs a development plan. The elder, the business founder, also needs to look at his or her personal development in terms of what he or she want to do with their lives outside of, or apart from the business. When they have a personal development plan, it is easier for them to make the tough decision to disengage from the business, and let go. Unless they find someplace meaningful to go, they will be back.

Guidelines for Family Involvement. Is the family for the business or the business for the family? The family must decide how it will treat family members who want to work in the business. They need to set rules for entry—what does a family member have to do to get a job. They need to define how compensation is determined, how performance is evaluated, and what perks are available to family members. Do all employees get cars or credit cards, or just family employees? Do all family members get cars as gifts? Or a house? The family that wants to give gifts to each other has to learn the difference

between doing it as a business or personal matter. If there are not guidelines or rules for these areas, conflict is inevitable.

The Council sets clear expectations for entry to the business, to reinforce that working there is not a right, or a form of family welfare, but a privilege for someone who is accountable to the family for results. This is a business value that must be introduced to family members before they develop a contrary sense of entitlement.

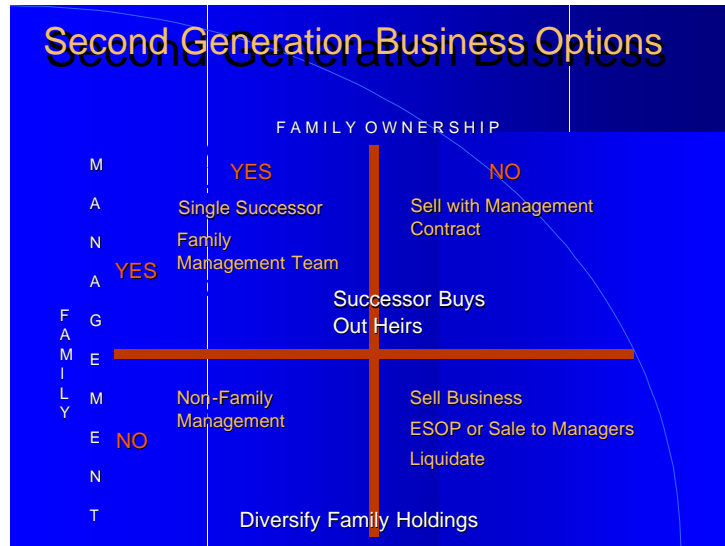
As a family grows and its business develops, they must become more explicit about these matters. Most families develop rules that set job qualifications for work, and move toward paying market rates for employment. But at the early stages of the business, when the business really is an extension of family, it may develop the habit of using the business as a family perk. Once a family is used to things—like season tickets—it is hard to change it without those affected feeling it is “unfair.”

Strategic development means that a family desiring to grow their business across generations, should develop a family charter or Constitution (see Jaffe, et.al., 1998) that states the rules and expectations in these areas. Strategic planning includes a plan for how family involvement will unfold.

Ownership and Transfer Policies. As a family grows, its members/owners may need income from the business, and the business may need capital for development. What are the guidelines for family member distributions vs. retaining earnings? There are families who harm the long-term development of a venture because more and more family members feel entitled to a certain level of income.

Many family business founders want nothing more than for their businesses to remain in the family. But the degree of ownership, and how the inheritance will be determined is a matter of some consequence to the heirs. Will they each inherit an equal share, or will the family members in management inherit more? What is the rationale for the difference? Who controls the business, and what are the rights of minority family owners? Will family members inheriting less ownership receive any other assets? Can a family heir who has ownership sell their shares to another family member or to a non-family member? How does that happen?

Each of these questions deeply affects the future of the business. One of the most important areas for planning is the priorities for each of the possibilities in family management and ownership. While many families say they need to keep their options open, the family should consider which direction they are more likely to go. They must ask about the financial needs of the next generation, and how will the business provide for them? Many a family business that provided a good income for one or two families, is not designed to provide the same lifestyle for a half dozen.



The greatest challenge facing the family council arises when they try to decide whether to let go of control or ownership of the family’s legacy business. At some time a business will stop growing, and the family will have to ask itself whether it should diversify into other areas, to provide greater opportunity to family members or grow their wealth more quickly. But the family may feel obligated not to sell, and therefore hold on too long. This decision rightfully belongs to both the Council and the Board of Directors, each of which have important perspectives on the choice.

The Board: Planning the Strategic Business Future

The Board’s primary task is to look at the business **independently** from the family’s needs. This group has a different purpose and usually composition, than the family Council. The Board usually includes the key business owner and may include family members who play key roles. But unlike the family council, it might also include key non-family executives, and independent non-family directors or advisors.

The family council tells the family and the business how they want people involved in the business, and what values, rules and policies they want to follow. But the family is looking after itself, and is not focused on business concerns. The Board must help the family see what is possible, and how it can have what it wants. The family wants the business to be an engine for the family’s livelihood, and the Board will often have to challenge the family, and even set some limits on pay, distribution or family involvement. They also act as the check and balance so that family members do not go outside what is healthy or legal.

The financial planner often serves as the bridge helping the family begin to create a boundary and difference between its family council and business board. The planner must help family members understand why this boundary is necessary, and how to create it.

The business board focuses on four areas of strategic planning:

- Business Renewal
- Capital Needs—Business and Owners
- Key Employees—Leadership Team Succession
- Succession Governance

Business Renewal. Business development is often graphed as an S – curve, starting slowly, then sloping upward for a period of fast growth. Over time, which can be of any duration from years to decades, the curve levels off and even drops, as the business matures. Business renewal involves re-igniting the engine of growth to begin a new S-curve that grows out of the tail of the old one. However, too many businesses flounder, decline, or go out of business, rather than innovate and develop.

The family business is particularly challenged around renewal. Over time, the very qualities that brought it success—loyalty, service, consistency, and persistence—can become liabilities, favoring the status quo over change:

Renewing the Business to Avoid Stagnation

Over time, the virtues of the family business can become problems, making it difficult for the business to develop and evolve:

- n Value loyalty over results
- n Difficult to let anyone go
- n No new blood shaking things up
- n Don't confront the founder or each other/harmony reigns
- n Focus on internal politics/power struggles rather than customers
- n Oriented to past triumphs rather than future
- n No long range plan for development
- n Little innovation in systems or products
- n Focus on existing markets and customers
- n Employees lack ability to handle new demands

Following the family's values can make it difficult for the business to plan for change. The shadow of the founder, whose visionary energy becomes the will of the business, makes it difficult for successors—whether family or non-family--to let go of old ideas and people.

Yet business success rests in having a plan to renew and innovate, and a staff that is dedicated to that. It also needs the resources to make that happen. The Board has to challenge the business for a development plan, and to allow the best of the leadership to move ahead.

Capital Needs—Business and Owners. The business faces competing demands for resources. The founder and family want their rewards, while the business needs capital for expansion and development. The business planning process must take account these two sets of needs, and either manage cash, borrow to invest, or arrange to buy out impatient or unrealistic owners. The future of a family business often rests with a capital campaign that allows the business to gather an infusion of cash to develop, by re-capitalizing family members. The younger generation often arranges to buy out their elders, or their siblings. They may take on investors or offer shares to non-family employees. The family may shift its focus, and begin to see itself not as tied to one legacy business, but as having a portfolio of investments.

Key Employees—Leadership Team Succession. The family often spends too much time dealing with conflict inside the family about who will lead the business, to pay attention to the nurture and development of non-family talent. It is a delicate balancing act to work for a family business, and many highly capable leaders shun them, because they fear there is no place at the top for them, and that their capability will be ignored by a highly political family environment. Too often, they are correct.

The strategic future of the business involves determining the next generation leadership team; not just the top person, but also several capable people who are young enough and dedicated enough to lead the company to the next level of development, and not clones of the founder.

The care and nurturing of non-family executives is not just about paying them well. It is about making sure that as the generation shifts, there are not just places for family members to have impact, but offer power and authority to non-family leaders. Many of the strongest family businesses represent partnerships between family and non-family leaders, each with their own strengths.

Succession Governance. Succession of generations is not an event. It often takes place over many years, with a long period of cross-generational partnership. As life spans and careers lengthen, so do the number of years that two generations, even three, work together. The Board is often responsible for setting the terms of the shift between generations and monitoring each stage of the process. The presence of independent elders on the board who are respected and listened to by the patriarch or founders, helps manage the difficult process of letting go and allowing the next generation to take over. These elders also are available in the case of an emergency that removes a key member of the older generation.

The task of succession governance is not simply selecting the next leader. The business is not a prize or a trophy. Rather, it is developing the talent, focus and resources for the business to continue to be successful. Often, the talent is dispersed in the family, or between several managers, and some form of shared leadership emerges. The answer regarding whom should lead the business can often be resolved by the people of that generation, rather than for them.

Planning in Two-Dimensions

Strategic planning for a family business is a two-dimensional process—looking at the business future, but also understanding that such future lies within the context of family ownership and control. The two types of planning can proceed either consecutively or concurrently. The family looks after its business, as does the board. Each group has a different slant and set of concerns. The family often hears its own issues more loudly than those of the business, but a planning process has to ask how the family can achieve what it wants with the actual business it has. These two planning processes include some of the same people in both groups, and the choices of each impact on the other. So, the best path is for the two groups to interact in many ways, not just through a single family leader or liaison, but through a set of clear communication links. The financial planner often helps the two groups work together.

A family that is several years from a generational shift should begin its planning process actively. They must form a family Council, and utilize its Board of Directors as an active force. The board cannot do its planning without having input from the family about its desires, values and priorities. The process often continues over several years, with each group working on its own, but also having frequent communication and interaction. The family business is such a complex system, that only a complex and multi-faceted method of planning will be able to help it move ahead.

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Biography

Dr. Jaffe is professor at Saybrook Graduate School in San Francisco. For more than 35 years, he has worked as an advisor to families about family business, wealth and philanthropy. He is a founding member of the Aspen Family Business Group, on the board of the Family Firm Institute and the World Business Academy, and a team member at Money, Meaning and Choices. He is co-author of two of the foundational works about family business, **Working With the Ones You Love: Building a Successful Family Business**; and **Working With Family Businesses: A Guide for Professional Advisors**, as well as co-designer of the **Aspen Wealth Management**

Inventory. He received his BA degree in Philosophy, MA in Management, and Ph.D. in sociology, all from Yale University.