Ten Strategic Questions for the Next Generation
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Among the many issues that confront family businesses in times of generational transition, strategic direction can be crucial. The strategy that has provided direction for the business during the incumbent generation’s watch may be faltering or tired or largely completed. Strategic modifications, reinvigoration or even a reinvention of the business may be required with the aging current leadership unmotivated, unwilling or unable to lead the process of change. Strategic stagnation may set in with what can sometimes be disastrous consequences if the business loses its ability to compete.

Next-generation managers may recognize the problem but be in a poor position to do much about it. Their elders, still in control, may resist change and the risks that change implies. They simply may not wish to challenge established practices. Or they may fear being seen as lacking answers and the power to lead—but still not ready to let go.

Next-generation managers also can have their own difficulties. With heavy operational responsibilities, they may be focused on the present with no time to consider the future. When you are fighting off alligators, it is easy to forget that the job was to figure out how to drain the swamp. The next generation may be lulled into false confidence by accepting the status quo or by their respect for their elders. Or perhaps they’ve fought for change and lost their battles. Or maybe the strategic differences among members of the next generation have not been addressed.

The result of any of these problems may be a lack of strategic leadership which can leave a business, its management and employees adrift.

Our strong recommendation is that the next generation of family business owners come together early in the process of generational transition in order to achieve consensus on strategic direction. Once that consensus is achieved, it should be communicated to top management, which has responsibility for developing the business’ strategic plan for approval by the board of directors.

When the next generation convenes to discuss strategic direction, we suggest that the conversation be guided by a number of questions. Indeed, individual members of the group should spend time in advance thinking about these questions so that each will be prepared to make effective progress toward the goal of being able to articulate strategic direction.

1. The most basic and fundamental question confronting each successive generation of family owners is: Are we committed to continuing our family business together? While basic, the question is not simple. Different family members may have different answers. Some may wish to cash out. Others’ participation may be conditional (“I’m in, but only if I have a top management job.”) Some may dream of their own children inheriting the business. Others may not have children. Motivations that were homogeneous in the previous generation can differ markedly among members of the next generation. These matters and the liquidity issues
that may ensue should be worked through.

2. Next question: Are we satisfied with our current strategy? This is actually a very complicated question. To answer it, participants in the discussion must know and understand the current strategy and must be able to assess its effectiveness. That knowledge usually requires some rather in-depth discussions with the business’ leadership and board of directors. Sometimes the conclusion is that the strategy is not clear, that it is inadequately effective or that the strategy is good but poorly executed. Such conclusions require many more questions to be asked.

3. Are we satisfied with our rate of growth? To answer this question, next-generation leaders should understand the positives and negatives associated with growth—which vary by industry. Sometimes, growth is required to remain a viable competitor. Sometimes, more growth means increasing risk or reducing quality. These issues must be carefully examined.

4. How does the availability of capital constrain our strategic choices? The willingness of owners to provide capital to the business and to reinvest profits in the business has significant impacts on growth, diversification and other strategic options.

5. What is our orientation toward risk? The next generation should consider the financial structure of the business and their willingness to use leverage (borrow money) to pursue the strategies adopted.

6. How patient are we with our capital? Are the owners looking for current or quick returns, or are they willing to wait for the strategies to come to fruition? Reaching consensus on this question has a significant impact on strategy selection.

7. What are our expectations about liquidity? The group should reach consensus on their desires for distributions and the ability to sell shares.

8. What are our business’ strategic strengths and weaknesses? What opportunities and threats confront us? These questions are the basis of a widely used strategic planning tool called S.W.O.T. analysis (Strengths, Weaknesses, Opportunities, Threats). The exercise is one that owners should go through to sensitize themselves to the strategic planning process and to improve their ability to offer strategic direction and feedback.

9. Are there strategic avenues recommended or precluded by our family’s values? Family owners may support or deny certain strategic directions because of family values. Reach agreement among owners on this issue and make such constraints clear to management and the board.

10. What do our family business’ history and traditions tell us about how we’ve handled strategic change in the past? All business-owning families have had differing historical experiences relating to such matters as change, consistency, quality, risk, discovering and taking advantage of opportunities, and other strategic issues. These are worth reviewing for lessons learned or so that thoughtful departures from the past can be accomplished.

Your family may come up with additional strategic questions to consider. But it is important to encourage the rising generation of family business owners to engage sincerely in the complicated and time-consuming discussion required to reach consensus on strategic direction. The next generation must speak on this crucial subject with one voice—to each other, to the board, to management and, someday, to their own children.