The Family Business Advisor

THE FAMILY BUSINESS CONSULTING GROUP

Looking at Family Business Trends with 2020 Vision

By: Tom Emigh and Dana Telford, The Family Business Consulting Group

One benefit we experience from having 25 consultants who have worked in 70+ countries with over 2500 business-owning families is the opportunity to spot emerging trends in our field. Through daily interactions, we keep an up-to-date sense of our clients' headaches and heartaches. By identifying the trends in these challenges and then working together to understand the opportunities they bring with them, we gain insights and knowledge to help our clients prosper across generations.

As we begin 2020, we thought it would be useful to describe the most compelling trends we see in our work today and offer a few suggestions for making the most of them. The trends are:

1. Formalization of Corporate Governance
2. Generational Dynamics
3. Mergers and Acquisitions
4. Longer Life Spans/Longer Careers

Trend 1: Formalization of Corporate Governance

Search "Corporate Governance" online and you will find an overwhelming supply of books, articles, webinars, podcasts and conferences. Business-owning families are increasingly investing time and energy in improving their governance structures and processes. According to FBCG co-founder John Ward, "Most family business owners report that the single most important decision they made over the development of their family business was the formation of a Board and the hiring of outside independent advisors/directors to provide objectivity and wisdom."

It's important to note that governance in a family business system evolves over decades and that governance at the board, ownership and family level are each important. Early iterations of governance typically include chats with the family attorney or accountant "around the kitchen table." Over time, the venue changes to the boardroom and the topics expand to include competitive strategy, owners' alignment around growth, risk, profitability and liquidity, organizational design, risk management, accountabilities, guidelines for choosing leaders, compensation, decision rights and the extent to which the owners want family members involved in the business. No two governance evolutions are identical. Their pace and dynamic must fit the family.

"FBCG studies have shown that the highest-performing family firms tend to have a fiduciary board with the majority of board members as independent outsiders versus family members," reports Joe Schmieder, FBCG principal consultant, in his article "Evolving Your Family Business Board." Why is this the case? Consider the experience of a client family in the hotel and lodging business. The four sibling owners with a history of interpersonal conflict faced an important decision: Should they borrow 20% of their equity to expand their footprint or continue to focus on improving operational efficiency? Long-standing lifestyle and personality differences tainted every discussion and made it difficult to objectively consider each other's ideas. Plus, due to their concentrated regional focus, they recognized that their ideas were limited by their relative inexperience and lack of exposure to other markets.

To their credit, they realized that they needed outside advice and objectivity. Over a one-year period, the sibling group identified the desired characteristics, experiences and skill sets of new board members, hired an outside search firm, identified and interviewed potential candidates and invited the two top candidates to join their board. Now five years later, they credit the wisdom and counsel of the independent board members as fundamental to their expansion and success in their hotel business.

What made the difference? As one board member put it: "We could not see the forest through the trees of decades of fighting and negativity. These new directors helped us to separate the emotional history of our sibling group from the data that pointed us in the direction we ultimately went in. Without their guidance we probably would still be arguing over the same issues from 30 years ago."

Trend 2: Mergers and Acquisitions

We see an increasing number of M & A discussions and transactions. There are many reasons for family business owners to consider a total or partial sale, or an acquisition. First, long-standing production and consumption patterns are being disrupted by the 83 million Millennial-generation consumers. Those born between 17 to 36 years ago will represent $1.6 trillion in buying power in the year 2020. Study their consumption patterns and you will quickly see that they look at many activities differently than preceding generations.

Second, family firms are finding this rapid pace of change to be either a great challenge or a ripe opportunity. Those who either cannot or choose not to make needed adjustments become targets for those with an appetite and bankroll for acquisition. Consider the *Washington Post* which in 1997 was read daily by over 50% of households in the DC, Baltimore and Northern Virginia metro area. *Washington Post* leaders saw the digital revolution coming, but their structures, processes, habits and norms could not evolve fast enough to retain market leadership. In 2013, the Graham family sold for $250 million cash to Nash Holdings, controlled by Jeff Bezos.

Third, private equity coffers are swollen with over $800 billion in funds, and private equity firms have high incentives to pursue acquisitions. Family firms are both an increasingly attractive target, and there is a growing trend of family offices functioning as a private equity arm of the family enterprise.

Baby boomer business owners, those between 55 – 75 years old, are firmly in their retirement years. More and more of them are engaging their families in hold vs. sell conversations and many are finding that their children are not interested in running the family business. When private equity firms come courting and offer huge sums, it's reasonable to understand why business owners sell and turn their attention to protecting wealth and pursuing philanthropic initiatives.

When a client was asked why she chose to sell her group of retail automotive stores, she replied, "It turns out selling the company was the best form of succession for our family. My three children had very different lifestyles and different visions for their future and owning an auto group didn't fit with any of them. I'm happy with my decision to sell. The valuation was more than I had ever dreamed and I'm enjoying the freedom to define my next phase."

Trend 3: Generational Dynamics

While the issue of tension and misunderstanding between generations is nothing new, the level of discussion regarding current generation gaps seems to be reaching a peak in volume and intensity. From puzzled statements about why "those Millennials" do or don't do certain things to the "OK Boomer" trend (with Gen Xers somewhere in the middle), the gap seems to be wider than ever. Of particular note is the interaction between the Leading Generation, mostly made up of aging Boomers, and the Millennial and Gen X cohorts who would lead the family business into the future.

For example, a common generation gap growing wider is around the use of technology to interact. Communication between the generations is always challenging — even more so when the preferred mode and medium of communication are completely different. The tension between preferences of phone calls vs. text vs. face-to-face can compound misunderstanding and create gaps in trust. The bottom line is that there is a failure to connect and share information meaningfully in ways to build trust and understanding.

However, once these gaps are bridged, and both "sides" realize that the other has significant value to offer, there can be learning and enrichment. Sometimes a face-to-face meeting is necessary to achieve the desired results — both with colleagues, family and customers. Other times, a quick text is efficient and effective.

One of the ways the Next Gen can energize a business is by bringing fresh perspectives about technology. These tools allow the entire business to collect and use data and communicate in ways that are more effective and efficient. This leads to cost savings and even further innovation as employees are able to see new emerging trends because they have better data. This data can be part of the information that allows the Leading Generation to monitor business performance as they begin to transition out of leadership roles.

We are also observing that social media is both an opportunity and a potential threat. The various social media platforms present many opportunities to clearly and repeatedly communicate positive messages about values, products, service and distinguishing characteristics.

On the other hand, social media platforms are public and permanent. Once a message is posted, it is available for all to see and share. This is a threat in the case of misstep or oversight. If grievances of the family or business are aired in this public forum, it can have the effect of reducing confidence in the business, the products and the people in leadership. These types of missteps are easy to make and very difficult to fix.

Trend 4: Longer Life Spans, Longer Careers

Two developing trends seem to collide in this category: The leading generation seems to be staying longer and the next generation seems to want to lead earlier. When both of these trends are present in a family business, we observe that things get "jammed up" and tension is created between the generations. And the longer this dynamic exists in a family business, the more tension can build.

Our clients have found it helpful to recognize that a diversity of viewpoints is essential in organizations of growing complexity competing in a global marketplace. Leading at the management and governance levels requires a broader perspective, and involving multiple generations can contribute to that. They key is to manage the paradox of desiring continuity (the business lasting beyond the leading generation) and longer productive life spans.

The key is to manage the paradox of desiring continuity (the business lasting beyond the leading generation) and longer productive life spans. Families who purposefully navigate these generational dynamics create opportunities and build necessary skills for collaboration between generations. This allows for open conversation, planning, understanding and coordination regarding issues such as continuity and governance while maintaining or building family harmony and trust. One idea we have seen add value to families is to have each member of each generation create a list of those behaviors or beliefs that they need to "let go of" or "grab on to" in order for the family to achieve a higher level of success. These activities represent the mindset and innovation necessary for each generation to do their part as the baton is passed from one generation to the next.

Conclusion

These trends are affecting businesses in all industries around the world, but they show up in ways that are as unique and complex as the family businesses who are experiencing them. And they do not exist in a vacuum. Leaders can't simply pick one without dealing with the others. Instead, they must work together with their families, owners, boards and executives to identify how these trends are affecting them and make plans for using them to their advantage.

As advisors, our highest and best use is to help our clients understand and implement the leading practices and processes that strengthen the business and the family and allow them to prosper across generations.

Tom Emigh and Dana Telford are members of The Family Business Consulting Group. To learn more about our firm and how we serve families like yours, call us at (773) 604-5005 or email us at info@thefbcg.com. There is absolutely no obligation.

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