

Megatrends in Family Business

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The past decade has brought changes in our understanding of family businesses. This article identifies 10 “megatrends,” which are evolving changes fundamental to understanding and working with family businesses. Identified trends include focusing on generational transitions rather than business succession; team management and ownership as a developing norm; the increasing importance of strategic planning in family business; increasing financial sophistication; increasing managerial professionalism; refining retirement; expanding roles for women; increasing sensitivity of professional service providers to family business; and increasing availability and quality of family business education and consulting.

Introduction

The journalists who call seeking insights about family business often ask, “So, what’s new in the world of family-owned enterprise?” “What trends do you see?” I am often tempted to answer, “What should be new in an institution that is as old as civilization?”

But with the multitude of professionals and scholars who now focus on family business (which, as I note later, is itself one of the major trends in the family business universe), there is reason to hope that original insights and knowledge might lead to changes in the “best practices” for family business. And, indeed, although it is not obvious on a day-to-day basis, if we can possibly step back and find the proper perspectives for measurement, we can discover—lo and behold!—the glacier has moved. In fact, there are changes and news.

Moreover, some of those changes are fundamental to our understanding of family businesses and how they work, justifying the term “megatrends.” I offer 10 megatrends here. Perhaps there are more, or maybe I’ve included too many. Perhaps I am simply reporting on how my own understanding has evolved and thus projecting those changed perceptions onto the field. I do believe, however, that the collective consciousness about family business has changed in some rather profound ways.

Trend 1: Generational Transition Is Replacing Succession Planning

The old wisdom was succinct and to the point: The critical issue facing family business is to identify, develop, and install the successor to the business’s top executive. “Family business succession” seemed the focus of everyone purporting to work with family firms. “Only 30% of family business survive the second generation for lack of succession planning” was the predominate insight and “how-to” guides and checklists proliferated.

But slowly, as the field gained experience, we began to recognize that the analogy of “passing the baton” from one runner to the next was terribly inadequate. Succession rarely involves only an incumbent and a successor. Instead, the process requires the perspective of a multigenerational time frame and takes place in a rich stew of social, cultural, financial, legal, strategic, moral, and other dimensions that resist neat, linear thinking. Indeed, when large-scale research permits correlations between various family business factors and multigenerational survival, succession planning is not shown as statistically significant. Strategic planning, an active board of directors, and frequent family meetings, however, do have significant correlations with success in passing the business from one generation to the next.

No longer satisfied with the notion of suc-

cession, many think leaders in the field now refer to generational transitions in family business. The changed perspective recognizes the importance of not just executive leadership, but of family and shareholder leadership as well. Moreover, the complexity of the simultaneous metamorphosis of personal, family, and corporate finances (including the effort to deal with the estate tax issue); strategic and structural changes in the business; relational, structural, and value changes in the family; altered expectations related to governance and accountability; and developments and changes experienced by key family member/owner/managers can only be encompassed by the broadest and deepest-possible understanding of the totality of “generational transitions” in family business systems.

Trend 2: Management Is Becoming a Team Effort

“You can only have one boss.” “The buck stops here.” “You must choose and install your successor.” All these phrases represent common wisdom of the ages. But increasingly, particularly in second-generation family businesses, business leadership rests with a team. To some extent, this reality reflects the larger world of management thinking in which the team approach has become much more the norm.

Given this affinity that siblings and their parents have for equality, perhaps it is not surprising that team management is given a friendly reception in family business. What’s new is the notion that installing a successor team can be an appropriate approach rather than a cop-out. For that matter, under certain circumstances and situations, installing a single omnipotent successor is clearly seen as the wrong approach. Indeed, according to the most recent Arthur Andersen/MassMutual survey, 42% of family business are considering co-presidents for the next generation. Even when one family member is selected as business leader, other family members in the business will likely act as members of the business leadership team.

The challenge, of course, is to assure that

appropriately selected family management teams are properly developed and structured so that they can function effectively.

Trend 3: Ownership Is Becoming a Team Effort

As with executive leadership, benchmark advice on ownership has increasingly reflected a multiple rather than singular reality. Business-owning families have become more thoughtful about ownership goals and, therefore, are less likely to vest a single individual with ownership control as a knee-jerk reaction to potential conflict.

Alternatives to autocracy are more often recognized as ways of managing conflict. Accountability as a two-way street seems an increasingly accepted norm, backed up by family policies, family councils, and real boards of directors that include objective outsiders. Investing power with a single chief executive/controlling owner/patriarch is sometimes more a reflection of an entrepreneur’s control needs than the appropriate process for assuring business and family success.

Trend 4. Strategic Management Is Becoming Important

Traditional views of family business evolved at a much less dynamic time in the history of our economy and society. When social and economic changes are slow, an entrepreneur can fill a need and, over time, perfect the process and organization used to produce or deliver a service or product. Having recognized a need and developed an efficient process for filling it, the elder generation could pass the necessary knowledge, contacts, and capital so that the next generation can enjoy their parents’ niche. The voice of experience and the wisdom of the ages should be heeded in the grooming of the next generation.

Where strategies once lasted for generations and strategic evolution was slow, recognizing the speed of current socioeconomic transformation now has become a veritable cliché. Where once management was primarily about conformity and

control, it is now about continuous innovation and improvement. As a result, comfort levels afforded by consistency and predictability are gone.

Family businesses with traditions of entrepreneurship may have an advantage during these conditions of change. (“Make change your tradition!”) But the dynamics of generational transition are further complicated by the velocity of required strategic change. Conflicts over business strategy, risk, and the appropriate managerial culture and style needed for success in a rapidly changing environment make transitions more difficult.

Family businesses that embrace the process of strategic change and view the younger generation as a resource to that process are much more likely to successfully navigate generational transition. Business strategy and strategic management have thus risen on the priority list of generation transition issues.

Trend 5. Financial Sophistication Is Becoming a Necessity

Financial management of the family business used to be straightforward. A business was bootstrapped or started with a loan from Uncle Harry and typically had as its goal making plenty of cash (but not profit) and getting and staying out of debt. Sophisticated financial management was for Wall Street, not Main Street.

With the Wall Street mentality now exploring every available market niche, ceding the skills of sophisticated financial management to the competition is dangerous. When continued competitiveness requires constant reinvestment and strategic risk, simply earning enough to provide family members a decent lifestyle cannot assure survival.

Family businesses must now go beyond “breaking even higher and higher” as a guide to success. Executives and nonactive stockholders need to know their way around profit-and-loss statements and balance sheets. ROI (return on investment), RONA (return on net assets), and EVA (economic value added) are concepts with which family businesses are becoming increas-

ingly comfortable.

As investing activity has gained attention and exposure, family business executives can also expect more sophisticated questions from family stockholders. They too want to know more about their company’s strategy, performance, and finances. As one family business leader recently said: “It’s pretty scary when you find yourself in a sophisticated discussion with your family on valuation methodology. But then discussing it is a whole lot better than fighting over it.”

Trend 6. Professional Management Is Replacing Entrepreneurial Management

As Collins and Porras suggested in *Built to Last* (1994), a business may be better off in the long run if it did not spring from an heroic founder. Entrepreneurial giants are a tough act to follow in so many ways!

Traditionally, family-member managers were contrasted with professional, “nonfamily” managers. That distinction is increasingly seen as irrelevant, at best, and dangerous, at worst. Family members are expected more and more to meet or exceed the highest levels of executive professionalism, including educational achievement and career success experienced outside the family business.

The result is management that is less idiosyncratic than can be found in entrepreneurial models. The founder is increasingly less likely to say to his successor, in effect, “sit here and learn how I do it.” That founder too often had become a self-fulfilling prophet, claiming that “this business can’t survive without me” and then proving himself right.

Professionalism rather than idiosyncrasy is increasingly the standard by which all family executives in family firms are judged. The family dimension means that professional management is married to family values, long-term perspective, and ownership with a human face. Family ownership and leadership do not excuse lack of discipline, accountability, consistency, or responsibility.

Trend 7. New Roles Are Defining and Replacing Retirement

“Set a retirement date, announce it publicly, and honor it,” has been the traditional advice given to senior-generation chief executives of family businesses. “They’ll carry me out feet first,” has often been the incumbent’s answer. Requiring retirement is good advice for those who will take it—but many will not, preferring to continue working or to semiretire.

“I’m retired, more or less,” said the elder-generation leader. “I hate that,” said his successor, “because I never know when he’s retired more and when he’s retired less.”

Rather than focusing on retirement, family businesses increasingly focus on new roles for elder leaders—either outside or inside the business. A person who has devoted a lifetime to a business, deriving fulfillment and identity from it, must transition to something also filled with meaning and identity. And if the elder stays with the business, he or she is more likely to have a clear role and to actively clarify who the new leaders are by deferring to them. The one third of family business leaders who will hang around, increasingly pass the baton but stay on to watch, help, and cheer.

Trend 8. Women’s Roles Are Continuing to Expand

The widow who becomes chairperson, the supportive wife who keeps the books, the behind-the-scenes “chief emotional officer” are all stereotypical women’s roles in family businesses. The blended business and family goals of family business systems, however, create a more flexible environment invested in the success of the next generation regardless of sex.

Historically, family businesses commonly had “no women” and “no wives” rules (whether formal or informal). In today’s world of family ambition and increasing gender neutrality, women’s roles encompass higher achievement in organizational hierarchies. Perhaps more importantly, women are more active in a wider range of roles. Sibling management and ownership

teams usually and normally include women. Women who are not employed in the business are more likely to be educated, active, and impassioned owners whose insights and inputs are encouraged and honored rather than relegated to pillow talk. “Common wisdom” now suggests inclusion rather than exclusion of spouses at family ownership meetings.

I don’t suggest that gender issues have ceased to exist—they will continue as long as gender differences exist. But, in more and more families and in family businesses in general, gender is becoming a nonissue as it relates to leadership, ownership, and participation.

Trend 9. Professional Service Providers Are Becoming More Sensitive

Many if not most accountants, lawyers, bankers, and insurance professionals have long recognized that the majority of their clients are family businesses. At one time, they happily dealt with their clients’ business issues, but usually considered family issues or issues at the juncture of family and business to be separate, distracting, dangerous, and discomfiting. Confronted with family issues, their advice was to act rationally, or frequently they suggested selling the business before conflict could erode its value. Family conflict was often viewed as a threat to maintaining the client relationship or an opportunity to generate transaction fees.

These days, many professional service providers have become sensitive to and sophisticated in family business issues. They are more likely to recognize the diversity of family businesses and deal with them as unique systems. Increasingly they are willing to discuss the goals of individuals and families, eschewing the assumption that if family businesses do not fit into stereotypical motivational and reasoning patterns, they need to change their nature. Some professionals have gone so far as to educate themselves in family systems and hone their own listening skills. A few even embrace the notion that technical competence must be combined with a willingness to

offer client-centered compassion that includes the ability to creatively respond to the process and the content of family business issues.

Unfortunately, in too many cases, the business service professionals' sensitivity is not to the real needs of family businesses but to family businesses as a market. Some advertise their family business expertise hoping to sell their traditional services and approaches to family businesses. Others, in fields ranging from psychiatry to financial planning, refer to themselves as family business consultants, but lack the required multidisciplinary competencies to be effective in that role. Still others have added services that family businesses use, such as accountants offering to facilitate family meetings—situations in which they are simply not qualified.

The good news is that more and better professional services are now available to family businesses than ever before. The bad news is that caveat emptor—let the buyer beware—has never before been as relevant or as important as it is today, from the perspective of family business consumers of professional services.

Trend 10. Family Business Education and Consulting Are Becoming Realities

Little more than a decade ago, universities routinely ignored the realities of family business. Now, more than 100 universities in the United States and throughout the world offer forums, seminars, courses, and research on family busi-

ness. Where once the literature of family business consisted of a few articles and books, today an entire library could easily be devoted to what's written on family business. And what was once a handful of consultants devoting their careers to thoughtful service of family businesses, family business specialists are now practicing in most U.S. markets, and many work in all the world's developed economies. Family business owners have occasionally complained that they now receive too much attention!

Although millions of family businesses exist, only a small minority are likely to be consumers of products and services for the family business, and they will be consumers only at certain points in the lives of their businesses. The family businesses are changing and the family business field is continuing to mature, however, the family business marketplace will increasingly determine which institutions will gain the privilege of a family business's trust.

References

Collins, James C., & Porras, Jerry I. (1994). *Built to last: Successful habits of visionary companies*. New York: Harper Business.

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