



WEALTH PLANNING > HIGH NET WORTH

Five Key Family Enterprise Focus Areas for 2019

Some tips to help encourage engagement across all generations.

Ann.Dugan | Dec 31, 2018

Current demographic trends point to a growing wave of sales and

transitions of family-owned businesses over the next two decades. According to the Family Office Exchange analysis of Headwaters data, most business-owning families aren't prepared for the expected transitions.

- Thirty percent of private business owners are over 67 years old, not yet ready to retire and still actively running the business. In most cases, families are unprepared for a sudden or unexpected event.
- Only 31 percent of businesses provide education to prepare family members for transition to leadership.
- Two-thirds of businesses currently lack a written succession plan.
- Nearly half of businesses are operating in maturing industries, making them potential targets for disruption by new and evolving technologies.

While this forecast for the likely sale and transition of family businesses is looming, 2018 had been a redefining period for many family businesses as they sought to reshape what it means to be a family, an employer and a positive contributor to the overall community. Family leaders want to maintain the closeness of the family as they focus on the strategic vision for the business, innovations in their industries that need investment and building the systems and governance required in a professionally run company. While each of us deal with the challenge of finding meaning and a broader purpose in our work lives, for families in business, this purpose can be complex and multidimensional.

Optimistic Outlook

In most cases, the outlook for businesses is optimistic. A recent FOX survey in conjunction with Family Enterprise USA showed that respondents experienced business revenue growth in 2017 and were

confident this would continue in the strong economic climate of today. Many of the participants were multigenerational and recognized that impactful business strategies build on positive family dynamics, which require strong communication and governance in a consistent and thoughtful manner so that all generations of shareholders and family feel engaged.

Five Key Focus Areas

This engagement includes five key areas of important focus for family businesses moving forward:

1. Thinking beyond the family business: What starts out as a family business can gradually evolve into a more complex arrangement that includes the operating business, real estate holdings, multigenerational ownership structures, investment portfolios and philanthropic structures. Many families are adopting an enterprise mindset to take a comprehensive and thoughtful approach to how to plan, organize and oversee these activities to create a vision across the generations.

2. Moving to direct investing: Given the entrepreneurial nature of business-owning families, it follows that families are more frequently seeking out opportunities for direct investments in operating businesses in which their experience can jump-start profitability. They may also enter other industries in which their business sense and strong contact list can be extremely helpful to a young company. For example: a family trucking company that now direct invests in warehouses and terminals for trucks, a family landscape company that DIs in growing trees and flowers, and a family medical device company that DIs in medical marijuana.

Many families are partnering with like-minded families and engaging

multiple generations of their own family.

3. Giving back: In most regions, family leaders continue to be very philanthropic, serving on nonprofit boards or important fundraising committees as needed. Family foundations and/or their donor-advised funds tend to give more locally, improving the employee pool available for the business and raising the quality of life throughout the community. Impact investing has resonated with many families as the generations want the balance of a good market return coupled with holdings that are environmentally and socially acceptable. This interest in impact investing has resulted in more scrutiny of the boards of directors of publicly traded companies and their diversity in age, gender and ethnicity.

4. Establishing governance: Business leaders plan for governance and collaborative decision-making at all levels of the company, but there needs to be an increase in focus on family governance systems and the myriad of joint decisions families make. As family enterprise leaders get older, they may be faced with difficult decisions for the family and the business as their risk for health-related issues increases. Strong governance planning within the family enterprise can lead to increased sustainability for future generations.

5. Developing family learning programs: Many families haven't started to prepare the next generation to be knowledgeable managers, leaders or, most importantly, responsible owners. This work can't be delayed any longer as baby boomers rapidly move towards planned and unplanned succession. As more family branches are created, there may be liquidity needs for which the business must understand and prepare. To address this increasing complexity, some successful families are starting to move from the once-a-year family shareholder or family assembly meeting to consistent preparation and a learning path embedded in common family

values and vision. The consistency is achieved via the learning path established for each family member. Each family member has age-appropriate learning activities that can support not only the development of their personal career path but also their ability to contribute to the family enterprise. Family councils with a responsible chief learning position are more visible and popular now with very specific and dedicated learning activities that include meetings and committee collaborations. They use the power of technology platforms to keep busy family members engaged and informed with a focus on lifelong learning regardless of their role in the family enterprise.

Entrepreneurial Vision

When there's disruption, there's opportunity. Therefore, it's important that successful business-owning families continue to focus on shaping the meaning and purpose for the family. For families that intend to remain family-influenced and owned, it's crucial to take the timely steps outlined above to establish their vision and plan for the future. As family leaders move toward an enterprise mindset (that is, transitioning from being a business-centric family to being a family-centric enterprise with thoughtful ways to plan for, organize and oversee complex family activities (like major real estate holdings, multigenerational ownership structures, investment portfolios, philanthropic endeavors)), it's important to spend as much time focused on developing future family leaders as they do on running the operations of their business. The family unity that will emerge from better, consistent engagement can foster an entrepreneurial vision that spans the generations and extends the vision into the future.

This is an adapted version of the author's original article in the January

2019 issue of Trusts & Estates.

Source URL: <https://www.wealthmanagement.com/high-net-worth/five-key-family-enterprise-focus-areas-2019>