

Preparing For Deep Change In A Family Business



Dennis Jaffe Contributor 

Leadership

I cover leadership of family business and wealth across generations.

Prominent family businesses that have survived through multiple generations represent just about every category of business, from manufacturing to finance to transportation to media and more. Think of the [Rothchild](#) family that began its banking business in Germany in the 1700s. Or the [Mogi](#) family that first founded Kikkoman in Japan in the 1600s. Or the [Rockefeller](#) family that founded Standard Oil in the U.S. in 1870. These legacy family businesses continue to thrive in their multiple iterations.

Yet family businesses that last beyond the third generation are a rarity. The entrepreneur spirit of the founder may be passed along to the next generation, but by the time the third generation is called to lead, the spirit and drive have often dissipated. Passing on the dedication, creativity, vitality and innovation of the founding generation across new generations is a challenge of the highest order. Families who've successfully crashed through this barrier are considered "generative." A generative family goes through many reinventions. We studied these families in the recent book, [***Borrowed from Your Grandchildren: The Evolution of 100-Year Family Enterprises***](#), that reports on interviews with

100 families that have been in business together for more than three generations.



Prominent family businesses span generations GETTY

It's clear that wealth alone doesn't ensure success. Instead, multigenerational success stems from how the family views its wealth and uses it to develop its family enterprise. The conditions for the success of generative families are set early on, when they make the first decision to create a disciplined and values-based business culture and develop the capability and interest of their rising generation.

As family business copes with unprecedented upheaval, the qualities of generativity and resilience are in high demand. One quality of the family business is the personal relationships that the family has with its employees, suppliers, customers and community. Along with their long-term perspective, this quality serves them well as they tend to reach out and work with these external resources, rather than wall themselves off.

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Generative families are resilient and able to respond to cycles of growth and change through a three-phase progression in which they:

1. Prepare/anticipate. A family enterprise experiences periods of exponential growth, but its continued success rides on the family's ability to renew itself when growth slows, or crisis strikes. Even when they aren't preparing for a specific change, the family expects and anticipates broad general changes, such as the need to develop a new generation of family members or prepare for a shift in customers or products. They notice early warning signs and face them adeptly.

2. Engage/decide: As a change approaches, generative families gather to consider what it means. They engage multiple family members and listen to differing points of view before they take action. For example, a common experience of the fourth generation

is the decline of the connected family. To sustain connection, it must be renewed, and practices and cultural policies must be developed to reinforce it. Some generative families use corporate social responsibility to engage in cross-generational collaborations and build next-generation stewardship.

3. Redefine/renew: After the change, generative families don't return to the way things were. They find a new path and work to implement it. While they respect tradition, they're able to let go of anything that's obsolete. For example, it's not unusual for the fourth or later generations to sell the legacy business and diversify. The maturing business may not offer the returns that could be realized in other ventures.

Long-term sustainability is in the DNA of generative family businesses because their top priority is to pass on the business to the next generation. As a result, these family businesses prioritize long-term over short-term goals. This leads to an appreciation that industries have a life cycle, that sustainability means change, and that there is a need to embrace new industries, new technologies and new practices with each new generation.

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