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Transferring the Seven Principles of a Successful Family Business

The family business can be a central part of a family's identity. Indeed, for many business owner families, the business represents a way of life for all family members, particularly those involved in its day-to-day activities. But what happens to the family when the family business is sold?

The sale of a family business can affect family members in ways beyond the financial realities of the sale. After the sale of a family business, the business owner family must transition to a financial family. An important element of a successful transition is an understanding that the business purpose that drove and united the family must be replaced by a family purpose. Otherwise, the family faces the possibility of complacency and division among family members. Without a common purpose, the family does not have a common goal or focus.

We believe these dynamics can be addressed by recognizing the principles and values that helped the business achieve its growth and success and by developing a mission-minded plan for transferring those values to the family after the sale. In our work with business owner families, we have identified seven common principles a business owner family can use to successfully transition to a financial family. These principles are outlined in this paper.

Principle 1: Mission

A successful business owner family understands the business and the target market. Typically, the family has identified a specific business opportunity and has committed to fulfilling customer needs better than its competitors. A key reason for the success is a clearly articulated mission statement that outlines the company's purpose and vision.

We encourage families to craft a family mission statement based on the values shared by family members. The mission statement can be used as a guide to help the family identify needs and wants important for entrepreneurial, philanthropic, or familial purposes, and in this way transition from a business owner family to a financial family. In our opinion, family-wide adoption of a mission statement is often the single best leading indicator of a family's ability to successfully perpetuate family values and wealth through generations.

A family mission statement has four key elements:

- It must be timeless because it helps provide guidance to future generations.
- It must be collaborative with all current family members. The absence of collaboration has the potential to create apathy and resentment toward the purpose and vision.
- It must address not only the vision but also the means to achieve the vision.
- It should evolve through self-discovery of the family's identity, not driven by an abstract standard in the eyes of society.

Once developed, a formally documented mission statement should be a foundational family document—the family constitution, if you will. Many families read the mission statement at the start of formal family meetings, sometimes with family advisors present, to help guide family members through the decision-making process. Clarifying the family's beliefs can bring family members together to help focus on the decisions at hand.

Principle 2: Passion

Generally, successful family business owners love what they do, and the business owner's passion can be infectious. His or her success likely stemmed from the ability to build enthusiasm, with a sharp focus on specific, ambitious objectives. In our experience, we have found that momentum is created that makes the business owner seemingly unstoppable and success almost a sure result of his or her efforts.

Of course, while the reality is that a successful business owner family must, by any measure of success and sustainability, become profitable, and significantly profitable in the broader second and subsequent generations of the family, the initial passion that drove the first generation must also be present in members of the next generations who drive the business's continued success.

Following a sale, the momentum created during the course of the business might possibly stop suddenly. Family members are often forced to rekindle impetus through the discernment of a new purpose, a so-called "magnificent obsession" to replace the one that has been lost.

We believe such magnificent obsessions can be found in a philanthropic setting, for example. We see this in the work of family foundations nationwide in specific areas targeting education, poverty, disease, and other social needs. As another example, a new magnificent obsession of the financial family can be found through entrepreneurship, perhaps building a new business or helping others do so through angel investing.

Similarly, an energetic focus for creating and implementing a family legacy that will last for many generations can often replace, if not enhance, the level of enthusiasm and passion that drove the success of a family business.

Principle 3: Commitment and Belief

With a clear purpose comes a commitment to accomplish that purpose under any circumstances. As a result, the family business owner is typically willing to work harder, view seemingly insurmountable obstacles as hurdles that will strengthen the business, and perceive failures as temporary setbacks on the road to ultimate success. The business owner believes in the purpose, integrity, and importance of the business.

A successful transition to a financial family requires new commitments to equally exciting goals that will help the family believe that what it is now doing will also make a significant difference in the world and in the lives of others.

In many ways, we view the perseverance of the business owner family as perhaps the best possible preparation for the successful transition to a financial family that wants to have a successful, long-term impact on its descendants and the larger community. Building a financial family that can maintain a level of commitment to values and objectives for family, philanthropic, and other goals can likely be executed no better than by a former business owner family that survived many challenges, often perhaps under dire conditions.

Applying this level of commitment and belief to a well-conceived design for a financial family's legacy can be found within the experiences of the former business owner family. Transfer and implementation of this type of dedication can be obtained through family intergenerational education and creation of governance structures suited to a financial family, as discussed in Principle 4.

Principle 4: Control

Control is invaluable to the family business. A business owner with authority over all aspects of the business without bureaucratic and similar obstacles can usually take decisive action regarding market opportunities. As a financial family, the inability to yield control to other family members or other advisors with more experience in areas such as philanthropy and investing can create tension and be ineffective in accomplishing legacy goals.

The senior generation or generations of the former business owner family usually faces the reality that the financial family's legacy may extend well beyond their lifetimes. Yielding total control may become more palatable if it is understood that success of the transformed family mission depends on it.

With financial security often assured following the sale of the business, the former business owner must face a new broader sense of family and mission. In that way, giving up total control can be viewed as training a new generation of family leaders. The confidence to yield such control to the next generation may be gained through appropriate family education and governance structures that transfer, imbed, and sustain family values and philosophy within the financial family.

Principle 5: Risk

Business owners typically demonstrate a willingness to take risks commensurate with their understanding and conviction regarding specific opportunities. The risk is measured and designed to further the purpose of the business. Generally, business owners are used to controlling the assets in their businesses. So when the business is sold, even though using the sale proceeds to buy stock in publicly traded companies would lessen and diversify their risk, they often balk at this action because they do not like trusting other decision makers with their money.

In the context of operating the business, the business owner likely realized that engaging professionals for help was an effective way to minimize risk. Risk in a family business is often defined by several factors, including the size of the business, the concentration of family capital, lack of liquidity, potential product liability, the industry it occupies, and the risk of violating either industry-specific regulations or more general laws. It is critical for business owners to create a team of internal and external advisors who have depth and experience specific to those risks.

A sample family mission statement might be: "The mission of our family is to foster and maintain a commitment to love, family, faith, happiness and independence for each individual family member, and to serve and support the communities in which we live."

As a family transitions from business owner family to financial family, it will likely need to make changes in its team of advisors. The process starts with defining what effective execution looks like in a financial family setting, and then taking an honest inventory of skill sets among family members—specifically those who held critical positions of skill and depth in the family business. Gaps in experience will likely emerge, and third-party advisors can usually fill those gaps.

As an example, the financial family typically implements various wealth transfer and asset protection strategies that expose family members to many complex laws and regulations. Experienced advisors with the appropriate industry knowledge can help provide guidance on maintaining family structures with proper administration in compliance with all applicable laws. We believe this ultimately results in providing the best defense against a bad Internal Revenue Service audit result, thereby helping to preserve family wealth.

Similarly, the former business owner may be less willing to trust investment advisors who have the knowledge and understanding of the broader markets that he or she lacks. The business owner who once had most or all of his or her assets committed to the business can now diversify and invest in different stocks and sectors. Consequently, so-called "upstream" family education may be in order as the senior generation of the former business owner family learns the value and long-term sustainability of diversification and the necessary delegation of decision-making authority to experts and next generation leaders.

Principle 6: Decisiveness

When a business owner is in complete control, knows and is passionate about his or her purpose, and is willing to take risk to accomplish company goals, decision making can be prompt and bold. But after transitioning to a financial family, the business owner may vacillate in making decisions regarding the financial aspects of the family or make decisions without a clear understanding of their impact. Without a clear vision, and a loss of passion and control, former business owners may struggle with decisions. They often lack the trust in others that they have always had in themselves.

The former business owner must now understand that centralization of decision making is no longer necessary or desirable. In fact, we believe a transition to a broader model for decision making, particularly as future generations typically expand, speaks to the need for creating and implementing a decision-making model that is more democratic and representative. Such a model can help achieve harmony and a shared, somewhat flexible vision that allows for the input and influence of an ever-diversifying family. Passing on the decision-making role can be an opportunity to mentor the younger generation and teach business skills that brought so much success to the family.

Principle 7: Integrity

Successful business owners organize and run their businesses around core values. Their integrity means staying true to the core values across generations. These consistently held values help allow for the level of trust among customers and other third parties that can create long-term relationships, loyalty, growth, and success.

However, these values may not be integrated as effectively into subsequent generations when the core focus and the need for consistency in a family business are lacking. A significant challenge for post-business owner financial families is to develop common legacy goals, which might include strategic philanthropy or family investment partnerships, through which the values that created a successful business and successful individuals within the family can continue for generations. These goals should then be developed in conjunction with the family mission statement.

Developing and articulating common legacy goals is just the first step. The critical next step is communicating expectations and enforcing adherence to the family's core values to develop a culture of compliance.

Conclusion: Restoring the Vision

Transitioning from a business owner family to a financial family may be challenging for the family and the former business owner. The entrepreneurial spirit, full of passion, creativity, big dreams, and willingness to take risks for the sake of common purposes, may be in danger of being quashed by apathy or lack of purpose.

Rather than being an emotional low point, the transition to financial family should be a time of reflection, planning, and commitment of the same energy and creativity to discerning a new purpose. That purpose can be fueled by the former business owner's energy, the newly acquired liquid assets, and the next generations.

We believe this new focus ideally will include mentoring next generation family leaders, with the energy formerly reserved for the family business redirected to the business of family.