Generation to Generation: How to Save the Family Business

– *Boris Groysberg and Deborah Bell*

Across the globe, about 80% of the businesses are family-owned. In the USA, 60% of the total employment and 78% of the new jobs are generated by family businesses. However, long-term survival rate of family business is very poor, with 70% of them lasting only until one generation. In other countries too, these survival rates hold true. Thus, making family businesses long lasting is an important objective not only for the sake of those businesses but also for the stability and growth of the global economy.

According to the authors, one of the most important areas that influence family business survival across generations is board and corporate governance. They surveyed more than 1000 family and non-family boards of corporate directors across 59 countries to find out the board characteristics and practices followed. They identified the areas of improvement in board practices that can make family businesses long-lasting. This summary succinctly presents their study, its findings and practical implications for family firms.

Board Characteristics and Practices

The authors observed that the profiles of both family and non-family directors were quite similar. Nearly two-thirds of them had advanced degrees; they had served around six boards in their careers and currently held memberships of three boards. The authors studied four specific aspects related to the board characteristics and practices. These are as following:

1. Skills and Assessment

In order to govern effectively boards need to have key skill sets. Lack of human resource talent management was the major area of improvement according to the family business directors. Succession planning, strategy formulation, financial audit and compensation plan were other major areas of improvement in family businesses. Family business boards also lacked a process to determine skills needed to be a director. They were found to have infrequent or irregular performance assessments.

2. Succession

As high as 63% of the family business directors said that CEO succession was not discussed regularly at the board level. Only about 41% of opined that their boards had an effective CEO succession planning process while only 29% agreed that there was a succession plan in place for its directors. (For non-family directors these were 56% and 38% respectively).

3. Strategic Challenges and Talent Management

More family business directors than their non-family peers were found concerned about the challenges of innovation, increasing costs, debt and supply chain issues. However, attracting and retaining top talent were among the leading concerns for both family and non-family directors.

4. Diversity

Diverse boards and workplaces are considered beneficial for business. However, less than one third of family business directors (compared to about half of non-family business directors) said that diverse representation was a priority for their boards. Only 17% of the family directors said that their board had adopted measures to promote diversity.

Improving board governance to make family businesses last longer

The authors suggest three core areas where action needs to be taken to improve board governance that would improve the family firm's chances of long-term survival. These are as following –

i. Succession Planning: It is important for the boards of family businesses to have proper succession plans for the CEO and other directors. Regular discussions on succession must be included in board meetings instead of brushing the matter aside. Absence of or poor succession planning would severely limit the chances of family businesses lasting across generations.

ii. Performance Evaluation: The boards of family businesses need to establish a regular assessment process for board and director performance. This will help the top leadership identify the areas of improvement or change. It can also assess the skill gap within board and identify the skills with which the boards need to augment themselves.

iii. Increasing Diversity: Family businesses need to make greater effort to increase the diversity not only on their boards but also in the businesses. They must bring new talent from a diverse mix of backgrounds, skills, knowledge and experience. This will help the business in plugging knowledge/ skills gap and improve innovation as people bring different perspectives to the organization.

Practical Implications

It is important that family firms focus on improving board governance to ensure survival across generations. Planning for smooth transitions in the board and the company is also crucial to continuity. Objective assessment of the board and director performance would fix responsibility and accountability. It will also identify the areas where the board can improve its functioning. Increasing diversity to the talent pool will enrich the board's knowledge and perspectives.

Board governance and decision-making will improve by implementing the best practices and processes suggested in this article. Good governance would increase the chances of smooth inter-generational transitions and contribute to long-term survival of family business.

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