VIEWPOINT: HOW DO YOU PLAN FOR THE LONG-TERM?

Morten Bennedsen · March 26, 2015

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There are many successful family firms, but there are also many that stagnate, don't develop and don't grow the way they should. Why? One big difference is that the successful ones are good at long-term planning. A failure to plan properly is a major roadblock to the development of family firms.

So how do you do it? Together with Joseph Fan, a professor at the CUHK Business School, I have studied thousands of family firms in Europe, America and Asia and in our new book *The Family Business Map – Assets and Roadblocks in Long Term Planning* we propose an efficient three-step planning procedure that families can use to make their business sustainable for the future.

The first step is to identify family assets and roadblocks. To do this family leaders can ask two simple questions. First, what is the unique contribution that the family deliver to the firms? It can be a strong family or political network, their values, or something as simple as the name, the reputation, the brand, or the history. The advantage of family firms is the ability to link business strategies and business organization to their family assets.

Once you understand that you should ask: what are the challenges we face in the next 10-20 years? These challenges can come from the family side – conflicts, diverging interests, family growth; the market side – raising capital, staying independent; or the institutional side – inheritance taxes, corruption, culture or country-specific laws such as the one-child policy in China, which today is a major roadblock for family succession.

The second step is to plan, that is to decide on where the family firm should be in 10 or 20 years. If you have few roadblocks, and strong family involvement, then you are probably hoping to have successfully carried out a succession and stayed as a closely held family firm. But if the family isn't contributing a lot to the firm today and there are a lot of challenges, the plan may be to reduce the family role significantly or even prepare for a family exit through selling the firm.

The third step is to cultivate the process, ie to put structure in place that will help you to realize the goal in 20 years. If you want to do a family succession you have to cultivate the next generation, to develop career planning and to work on family cohesion and family governance. You may also need to find new ways of financing the family firm if it is growing and you do not want to give up ownership.

If you want to bring in external, non-family managers then you need to work out how to hire and incentivise them, and create structures that mean you aren't overruling the external management all the time, and give them freedom so it is attractive to them. If you go public, how do you design the governance and control structures?

Finally, if you decide to embark on an exit path, you have to work on the transition from being a fairly unstructured family firm to one that is attractive to exit.

Owners might plan to sell the firm - especially if there is no next gen interested in taking over - but even in a successful SMEs you can't just pick up the phone to someone and ask them to buy you. The right buyer will only come along every five years. Related to this is the issue about pricing the family firm. Most negotiations break down because sellers cannot justify the value they put on the firm in a tangible way that the buyers can understand.

Long term planning is all made more complex because families never talk about these things before they are pushed to, and they can have very different views. The owner might have made a plan but if he doesn't tell anyone, then it is useless - especially if he drops dead of a heart-attack before he can pass it on. Next gens are often frustrated with their parents because they don't know what they are thinking.

It's never too early to start planning ahead.

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