EgonZehnder

Northwestern | Kellogg

John L. Ward Center
FOR FAMILY ENTERPRISES

pwc

# Get Continuity Right in Your Family Enterprise

## How Leading Family Enterprises Create Resilient and Sustainable Wealth

By Jennifer Pendergast, Jonathan Flack, David Novick, Belinda Sneddon, Danielle Valkner, and Heather O'Keefe

Continuity of every kind matters in family enterprise,[1] from leadership to ownership to stewardship of wealth. In a previous whitepaper, we provided a framework for sustaining wealth through a shared family capital strategy.[2] This paper builds on that framework to discuss promoting wealth resiliency and growth, generating positive outcomes for the family and enterprise.

As enterprising families expand across generations, they often stray from their entrepreneurial wealth creation roots to a more risk-averse wealth-protection mode. This evolution is natural given that successful families have more to lose, more stakeholders to satisfy, and often a decrease in entrepreneurial drive and/or opportunity. However, if maintaining shared family capital across multiple generations is the goal, wealth protection mode is not an ideal strategy and may have some unintended consequences:

- Not motivating/engaging for owners, particularly the next generation
- Not motivating/engaging for leadership or potential employees
- May not meet competitive reality of the marketplace for operating entities

[1] Throughout this paper, we will use the term family enterprise to relate to all activities of a family that shares joint wealth, which may include sole or partial ownership of operating businesses, real estate and other assets, passive investments, and philanthropic assets. Similarly, "enterprising family" refers to the family members who jointly share and oversee the family enterprise assets.

[2] *Sustaining wealth through a well defined shared family capital strategy*, 2021.
https://www.pwc.com/us/en/services/trust-solutions/private-company-services/shared-family-wealth-strategy.html

- Doesn't leverage unique competitive advantages of operating and investing families (e.g., patient capital, investment with a long-term horizon)

For all these reasons, we advocate a strong focus on *growth*, with clearly defined growth goals (which don't need to be solely about growth in profits or value), tied to the family's "why" (what is the purpose of our wealth and what do we hope to achieve through it?) and "who" (what stakeholders are supporting through our shared capital), with a well-defined plan to execute on these strategically.

This paper presents probing questions to help you identify your "why" and "who." But note there are no right answers to these questions. They are the starting point that is often overlooked but pivotal, because they serve as a guide for developing your wealth continuity strategy. Then, armed with a well-defined "why" and "who," you can make key strategic decisions around growth considerations, governance/structure, and execution (including human capital and operations).

## 1. The "Why": Know Your Why

Your family's "why" informs critical decisions within and for the enterprise, and will impact prospects for continuity—or lack thereof. While the focus of this paper will be how to promote continuity, we consider here key dimensions on which to explore your "why," for better shared understanding and application.

***Purpose and mission:*** It's important to identify and articulate your family's shared purpose. What's seen as the value of keeping the family and enterprise together? What do family members feel they are "growing for," both personally and collectively? Purpose may include wealth creation but is typically much broader, encompassing ideals such as serving as a good employer, giving back to communities where enterprise assets, customers and family reside, developing family human capital, and others. Closely related to purpose is mission, or what your family does to realize its purpose: What does the family see as its mission? Is it shared? Is there a mission statement that enables or achieves the family's purpose in a way that resonates with family members and other stakeholders? In this case, we are thinking beyond the mission of an operating entity to the mission of the family itself. In general, it can help to think of the family's purpose as the reason for being together, while their mission is what they hope to accomplish by being together.

***Values:*** What shared values support the purpose and anchor the family? Are family values both nurtured and reimagined as the family evolves? How does the family's wealth enable them to live their values? How does the family enact its values through the assets it shares? Values may address the types of wealth, or "capital," most important to the family: financial, human (health, talents), intellectual (education, experiences), social (relationships, community, stories, life lessons), and spiritual (faith). Especially these days, the family's values may link to pursuit of ESG (positive environmental, social, governance impact) objectives and promotion of DEI&B (diversity, equity, inclusion, and belonging) in the business or other endeavors, and how exactly those components are advanced.

It is a given that family members will have individual views on values and how they are reflected through family decisions related to shared wealth. So, it is essential to consider a family enterprise model at the appropriate level in which individual and collective purpose overlap or in which individual family members can find some common ground. A sustainable family enterprise allows for tradition, progress, and innovation to coexist, supporting family alignment across generations and diverse viewpoints.

Embedded in the context of defining "why" the family sticks together is a definition of "who" – who is making decisions regarding purpose and mission for the family, and for whom are they making these decisions. It may well be important to decide the first "who" – who participates in the decision-making group – before considering the other aspects of "why" and for whom.

Indeed, enterprising families typically grow across generations, requiring the need to define and revisit the various stakeholders engaged in the enterprise and supporting its continuity from one generation to the next. So, defining the "who" is critical to defining growth priorities, as we discuss below.

### "Why": Leading Practices

Here are leading practices to consider as you think through your family's "why."

***Start with "why"—and what:*** In 2009, author and inspirational speaker Simon Sinek released his book *Start with Why: How Great Leaders Inspire Everyone to Take Action*. If you haven't articulated yours fully, there is likely some embedded assumption that you've used it to define your "what" (goals/desired outcomes); but it may not be the "why" you want. If so, work backward from your "what" to try to discover your "why," and then consider whether that's the right one for your family.

***Connect with "why."*** Use your "why" as a motivator for family connection – not all family members will be motivated by pure financial or business goals. Use your "why" as an opportunity to communicate and, ideally, unify a broad base of family interests.

***Beyond the business "why."*** Thinking in terms of broader purpose can be more inclusive to the family and provide an opportunity for longevity beyond the life of a business asset.

EgonZehnder

## 2. The "Who"—For Whom Are We Seeking Continuity?

Similar to the "why" above, there are key dimensions to consider regarding the "who" of your family enterprise: who is making key decisions, and for whom are they making them?[3] See below for more detail on each.

***Stakeholders/constituents:*** Who are the constituents of the wealth—whether operating businesses, family systems/members, or the broader community? How do you define family? Clarifying this element of the "who" may be more challenging than it appears, with family enterprises growing more complex (including investing and private-equity arms, for example) and the definition of family being broader and more fluid than in past times. And, it is useful to acknowledge that buy-in of non-family stakeholders, including senior management, may be key to success. So, their voices count too.

***Alignment:*** How do stakeholders feel about the articulated (or implicit) purpose and mission of the enterprise, and is there high-level alignment among generations, branches, other groups, and individuals? How can priorities be set across multiple objectives and constituents? For example, while some family members may prioritize near-term profit maximization, ESG considerations, venture capital, and impact philanthropy and investing may be the focus of many owners; they may also be interested in long-term investments in innovation, technology and data. Differing priorities may lead to tension or conflicts around purpose and values, requiring an effective way to prioritize, rationalize and communicate multiple objectives.

***NextGen involvement and leadership:*** According to PwC's 2021 Family Business Survey[4], 40% of US family businesses say they want to see the next generation's increasing involvement in decision-making and management. How can the rising generation be involved in decisions around family capital and grow in related responsibilities? Are NextGen members involved or interested in involvement—why or why not? How can you shape and implement steps to help the NextGen take on responsibilities beyond business leadership? What questions does the family need to ask together to keep the NextGen engaged and everyone moving forward? How might trusted outside advisors be involved in this domain within the enterprise?

***Communication:*** Communication is a cornerstone of effective decision-making, so consider the collective and individual communication styles within the family—submissive, assertive, passive, passive-aggressive—and how these impact decision-making and harmony, with the goal of creating as welcoming and level of a playing field as possible.

[3] While non-family leadership can and should be part of decision-making in many family enterprises, some decisions need to remain largely in family hands. Here we will keep focus on family decision-makers, while recognizing that others will be involved in some contexts and cases.

### "Who": Leading Practices

***Be inclusive.*** If your goal is generational continuity, include the younger generation in the "who" as you seek to define your growth strategy. Inclusivity is important in seeking to establish an enduring family enterprise system; indeed, it will take effort on everyone's part to reach alignment.

***Be flexible.*** The best way to keep the family together may be to allow individuals to pursue independent objectives while inviting them to participate in shared strategies, as part of an "individual and collective" approach.

***Acknowledge complexity.*** Recognize the inherent complexity of the stakeholders, interests, and agendas in family enterprise systems. Don't leave any out in considering your growth plans.

## 3. The "What": Growth Issues and Choices

Among the most critical choices to make in promoting continuity are those related to growth and growth plans. We discuss growth choices in key areas and offer perspective on how to think about these for maximum benefit.

***Definition and motivations:*** In the US, 96% of family businesses expect growth in 2022.[4] But that is a very specific definition of growth. Definitions of growth may include both financial and non-financial considerations such as enterprise value, enterprise profitability, enterprise breadth (diversity), impact (industry, community, otherwise), promotion of certain sectors or priorities (healthcare, education), financial distributions to owners, job creation and satisfaction, and others. Defining multiple objectives requires prioritization. How motivated is the family to grow on one or more of these dimensions—as related to legacy, lifestyle, philanthropy/impact? Do different segments of the family or generations gravitate to one focus over another? How does growth drive continued family engagement and connection? What is the family's responsibility to grow collective assets versus distributing the assets for individuals to take personal responsibility in supporting their own needs, or some combination of these, depending on asset levels? Paying attention to this area of focus is especially important in the context of the point about alignment below

***Strategic and financial context for growth goals:*** What assets are available to invest in growth (equity, debt capacity, access to co-investors)? What is the strategic/competitive positioning of current assets (including operating and investing assets)? What are core capabilities/differentiators to leverage? How do the family's current holdings align with the family's future vision?

How does the financial strategy take advantage of family ownership—patient capital, stakeholder trust, partner with other families? What is the family's risk appetite and investment time horizon? How much liquidity does the family expect from the portfolio, at individual and collective levels? What guardrails or limitations are in place—debt levels, sectors to avoid, minimum percentage control of assets?

***Options:*** What are your options to drive growth—core businesses, adjacencies, new businesses, sales of legacy assets (to fund growth), real estate, growth-focused liquid investments, direct private equity investments, co-investing, and others? How does each serve the family's purpose, mission, values, and financial objectives? Do they fit the family's preferences (organic growth, acquisitions, debt reduction)? According to PwC's 2021 Family Business Survey, 50% of US family businesses expect to increase diversification in their family and business holdings within five years, evidence showing that they think diversification is one of the keys to success in the future.[4]

In order to be successful, it is critical to take the time to explore this full set of questions around the "why" and for "whom" you are growing, as well as "what" you are defining as growth. Gaining alignment and promoting motivation on these factors is not easy in a growing, diverse family; but remaining grounded in these core principles, which will need to be continually reassessed and affirmed, will position your family to define and achieve long-term success.

### "What": Leading Practices

***Consider the complexity.*** Just as for "who" above, it's important to consider the complexity of your "what" – not just financial returns but other aspects of growth such as impact and legacy.

***Align growth goals with "why."*** Everything should work together. That is, aim to align your growth goals by involving your "who" and being mindful of your "why."

***Think holistically.*** When defining your "what," consider your goals in light of the full portfolio of assets rather than individually for each asset.

***Recognize optionality.*** Be mindful of the optionality that long-term thinking provides. That is, while in the short term you may be constrained by particular assets you hold, over a long planning horizon you can change your asset holdings through strategic, thoughtful planning.

## 4. The "How": Governance

Governance structure and process are critical for effective continuity and growth-related decision-making, and should be adapted over time to support the evolution of enterprise assets. So,

[4] PwC 10th Family Business Survey, October-December 2020,
https://www.pwc.com/us/en/services/trust-solutions/private-company-services/library/family-business-survey.html

while the concept of good governance is evergreen, its implementation requires iteration as to structures and mechanisms. As we noted in our prior whitepaper[2], many families lack a governance structure that provides for coordinated goal-setting, decision-making and performance, and risk-management across the family's asset base, which typically results in suboptimal decision-making.

Governance applies broadly to three areas: family governance, operating entity governance, and investment governance, as well as the mechanisms to coordinate decision-making across these areas. Each requires specific structures, planning/processes, and policies. These structures are the vehicles through which the family develops the initial "why," "who," and "what," and serve to drive enactment and monitoring of growth plans.

In general, specific dimensions to consider at the intersection of governance and continuity include:

***Structures in which assets are held:*** These create the governance framework and governing bodies for assets, including boards or committees that oversee family offices, family partnerships, individual investment assets, holding companies, trusts, and individual operating entities. Which is/are best to address the families' needs and goals? What, if any, governance mechanisms are required by the structures that are presently in place (e.g., legal or regulatory requirements)?

***How decision-making is structured and executed:*** Because some families provide a forum for all in the ownership group to voice opinions while others consolidate control, it is important to determine which decision-making structures best fit your family. For example, the family must choose among forum options including a broad family ownership group versus mechanisms to consolidate ownership control, including voting trusts, voting and non-voting shares, Private Trust Company (PTC), boards of directors, and investment committee. What is the process for arriving at decisions—consensus, majority rule, etc.?

***Oversight/monitoring:*** What structures/processes are in place to evaluate implementation effectiveness of the growth strategy? To monitor performance? To monitor risk?

***Policies:*** How are division of responsibilities and decision rights defined? Are there constraints on participation in decision-making related to age, percentage of ownership, expertise/experience/knowledge/acumen, or other qualifications? How are governors/decision-makers elected/selected? What information is shared, with whom, and how frequently?

***Communication and development:*** How can multi-generational dialogue on continuity goals, including as related to wealth, be developed and promoted? How can NextGen members be prepared to move into decision-making positions and have impact? How should information regarding enterprise performance be disseminated for purposes of education and decision-making?

### "How"/Governance: Leading Practices

***Map it.*** Map out your current asset holding structure for purposes of broader family education as well as evaluation of effectiveness. Key questions include: What assets do we hold in common? In what structures are assets held? Who makes decisions over each asset area? What are goals/strategies for each area? How is each area performing related to goals?

***Lay out roles and responsibilities.*** Define the roles and responsibilities of each governance body related to family assets, including how it coordinates and aligns with other related bodies (e.g., if PTC owns stock of the operating company, how are determinations made regarding distributions to owners).

***Ensure good transparency and communication.*** Make sure key stakeholders (e.g., family, non-family executives, board members, professional advisors) have visibility into the broader family assets and governance to ensure coordination and opportunity for objective input into design. Also strive to promote strong communication and performance reporting, often in the form of deliverables on a set schedule, and a clear process and forum for questions to be raised.

***Define skills.*** Articulate the skill sets needed for effective governance and implement processes to ensure preparation of NextGen governors with these capabilities in mind.

## 5. The "How": Execution Choices – Human Capital & Operations

Your "why" could be thoughtful and your "what" and "how" strategy and governance structure excellent, but it's impossible to be successful without the right talent or operations in place. In this "How" section, we consider the human capital and operations dimension of continuity, diving more deeply into the former while providing an overview of the latter.

### Human Capital

In PwC's January 2022 Pulse Survey, 92% of private company executives say that hiring and retaining talent is very important to their ability to grow in 2022.[5] This is true for family enterprises, of course, as leaders work to determine capabilities needed, understand talent already in-house, and fill human capital gaps through hiring, M&A, outsourcing, and internal development. Here are key dimensions to consider for the human capital component of the "how."

***Talent audits:*** There will typically be a more diverse range of motivations, capabilities, and future growth potential within a family than a business team, and this must be taken into account when

[5] PwC Pulse Survey, January 27, 2022, https://www.pwc.com/us/en/library/pulse-survey/executive-views-2022.html

assessing talent for the family business and broader enterprise. What skills are needed to support the family's growth goals? Who among the family demonstrates needed interests and skills? Who has strong potential to contribute to one or more domains of the enterprise? Are they motivated to contribute—why or why not, in what areas? How/should their interests be championed?

***Stakeholder relationships and roles:*** Family firms feature different relationships among employees, shareholders, and the board than a public company; for example, in a family firm many employees are also shareholders, and their parents may sit on the board, creating potential tensions and conflicts. Roles also exist beyond the business for which to consider talent, such as those in governance and philanthropy. Finally, emotions and family relationships play a large role, as decisions can't always be made based purely on what's best for the enterprise. Example queries of importance here include: Are people in the right roles for themselves and the enterprise? Are there potential conflicts of interest in reporting relationships? How to balance individual and enterprise needs and priorities?

***Family employee policies:*** This area involves multiple tricky questions, starting with whether to allow family members to work in the enterprise at all and, relatedly, how to determine roles, compensation, appointment/promotion criteria, career paths, reporting relationships (such as family members reporting to one another) and others, as previewed above. Is family employment best for the family and business? How can the family retain, promote, and incentivize family employees without creating issues related to nepotism, "free riding," or objectives driven exclusively by money? What compensation structures make sense and how do these compare to those in non-family firms?

***Recruiting and retaining non-family employees.*** It can be challenging for family firms to recruit and retain best-in-class talent, in part because of perceived limited advancement opportunities and fewer financial incentives (no equity and potentially lower total pay). Moreover, family business cultures are often unique, which can pose multiple challenges. There can be a high risk of "organ rejection" for non-family employees, which can lead to challenges in recruiting, onboarding, and retention. Still, among those who stay with the business, loyalty can be very high. While this is mainly a source of strength, a negative consequence can be insular thinking and the ongoing presence of suboptimal performers. In this context, key questions include: Is our enterprise attractive to outside candidates—why or why not? How can the family leverage a unique employee value proposition to attract non-family talent and balance potential downsides of working for a family enterprise (e.g., less equity compensation, limited access to top

roles filled by family, etc.)?
What pros and cons do our policies, processes, and culture present for non-family employees?

### "How"/Human Capital: Leading Practices

***Build a strong leadership pipeline.*** Work proactively to build a strong leadership pipeline, including both family and non-family. This includes attracting NextGen family members, starting when they're young (such as through conversations around the dinner table and early internships). Such efforts can be part of continual, effective succession planning for the family, family office, and broader enterprise, including a robust succession management process to lead this effort.

***Seek objective external perspectives and capabilities.*** Seek external perspectives through independent board advisors, external hires in senior level roles, and outside advisors. It is critical to ask for (and listen to) different points of view, including those from naysayers, to offset the risk of being told only what you want to hear. Engaging outside experts to assess and review talent—including within the business and board—can also be of deep value.

***Ensure ongoing education, training and development.*** This is important for all talent, but particularly for NextGen talent you want to develop and retain, to ensure they not only stay, but flourish.

***Create an attractive compensation structure.*** Ensure your compensation structure and benefits are attractive to both family and non-family executives and are designed to motivate desired behaviors – in both the short and long term.

### Operations

In addition to having the right talent, a best-in class operating model also includes process, technology, data, and controls. It is important for all five components to come together with new ways of working in an agile environment to serve your family and enable you to effectively realize your growth strategy and pivot as needed. Data to monitor and measure risk and reward or success is essential.

Key success factors for your operating model include requirements definition, right-sized processes and controls, robust data management and reporting, automation, upskilling/training of personnel, regular reassessments and proper governance, all anchored on the family's strategy, purpose and mission.

For more details on operating model considerations and leading practices, please see session materials from the Family Wealth Continuity Webinar Series.[6]

[6] Shared Family Capital Strategy: A Holistic View, Session 3, October 21, 2020. https://wardcenter.net/d/cfe-fwcc-2-implementing.pdf

## 6. What Next: The Path Forward

There is a reason we see few families who demonstrate the rigor we outline here to plan for generational continuity. These often-overlooked steps can be difficult, and many families just assume "growth is good" without putting in the time up front to dive deeper into the "why," "who," "what," and "how." Those must be defined and continually reassessed so you can drive alignment and execution, along with proper measurement and communication.

Even more specifically, while continuity is a stated goal for many – "we want to be family-owned forever" is something we hear often – the process to proactively define specific growth goals and develop plans to achieve them is less clear. Common reasons for this gap include lack of unified, centralized leadership to champion this planning, and lack of a governance structure to oversee the work. In addition, families may shy away from this effort because they fear lack of consensus regarding the growth plan.

We hope that this paper provides the motivation to consider this important work and outlines steps that make the process more structured and manageable. We encourage your families to think carefully about why you have decided to stay together, and to invest the time and resources to develop a plan that will help you achieve your goals, whatever they may be.

EgonZehnder

**Heather O'Keefe**
*Consumer Products and Family Business Advisory*
*(281) 386-4346*
*heather.okeefe@egonzehnder.com*

**Scan to learn more about Egon Zehnder's Family Business Advisory practice**

## About Egon Zehnder

Egon Zehnder is the world's preeminent leadership advisory firm, inspiring leaders to navigate complex questions with human answers. We help organizations get to the heart of their leadership challenges and offer honest feedback and insights to help leaders realize their true being and purpose.

We are built on a foundation that supports partnership in the truest sense of the word and aligns our interests with the interests of our clients. Our 560+ consultants across 63 offices and 36 countries are former industry and functional leaders who collaborate seamlessly across geographies, industries and functions to deliver the full power of the Firm to every client, every time.

We partner closely with public and private corporations, family-owned enterprises, and non-profit and government agencies to provide a comprehensive range of integrated services, including executive search, leadership solutions, CEO search and succession, board advisory and diversity, equity & inclusion. Our leadership solutions cover individual, team and organizational effectiveness, development and cultural transformation. We work with world-class partners including Mobius Executive Leadership, a transformational leadership development firm. In addition, we have partnered with Paradox Strategies, co-founded by Harvard University Professor Linda Hill, to develop the Innovation Quotient (IQ), a proprietary culture diagnostic.

We believe that together we can transform people, organizations and the world through leadership.

For more information visit www.egonzehnder.com and follow us on LinkedIn, Twitter, and Instagram.

## About Us

Northwestern | Kellogg

**John L. Ward Center**
FOR FAMILY ENTERPRISES

Established in 1999, the John L. Ward Center for Family Enterprises pioneered much of what is known about the collective challenges that family businesses and their leaders and owners face, making the Ward Center synonymous with new ways of thinking about the ownership and leadership of family enterprises.

The Ward Center has built a collaborative family business community among Kellogg students, faculty, alumni and family business scholars, and has developed a global network of successful business families who can learn from - and connect with - each other to generate innovative solutions to current and emerging challenges faced by family enterprises. The Ward Center also creates unparalleled executive programs and conferences to drive strategic conversations about innovations and best practices in the field of family enterprise.

**Jennifer Pendergast**
*John L. Ward Clinical Professor of Family Enterprise and Executive Director of the John L. Ward Center for Family Enterprises*

(847) 491-5731
jennifer.pendergast@kellogg.northwestern.edu

**Learn more:** **https://wardcenter.net**

EgonZehnder

## About Us

pwc

Our team, technology and approach are built around private clients to help you grow and stay ahead of the curve. Our community of solvers across tax, audit and consulting work to deeply understand your vision and aspirations—both for the enterprise(s) and personal (family-line, philanthropic, etc.) vision. We connect you to where you want to go—at the pace and scale you need to build trust and deliver sustained outcomes.

With 2,000+ dedicated professionals across the US and 170+ years of experience serving private companies, families, and high-net-worth individuals, PwC's Private practice is the most established in the market. Our staff are uniquely trained at Northwestern University's Kellogg School of Management Center for Family Enterprise—the same training program that many leading business owning families send their families for education.

Today, we work with more than 3,000 families across the US, and more than 10,000 families globally, helping families to solve a wide range of challenges they face as individuals, in their business and in the broader family enterprise.

**Jonathan Flack**
*Private, Family Enterprises Leader, PwC US*
*(615) 503 2866*
*jonathan.flack@pwc.com*

**Belinda Sneddon**
*Private, Family Enterprises, Managing Director, PwC US*
*(646) 939-8616*
*belinda.sneddon@pwc.com*

**David Novick**
*Private, Family Enterprises, Managing Director, PwC US*
*(262) 902-2967*
*david.novick@pwc.com*

**Danielle Valkner**
*Private, Family Office Leader, PwC US*
*(331) 588 1814*
*danielle.valkner@pwc.com*

**Learn more:**
***www.pwc.com/us/familyenterprises***

© 2022 Egon Zehnder International, Inc. All rights reserved.
No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording or otherwise—without the prior permission of Egon Zehnder.