THE CHILD GARDEN

Barbara R Hauser explains how family businesses can nurture and inspire the next generation

ALL FAMILIES ARE concerned about the universal proverb 'Shirtsleeves to shirtsleeves in three generations'. The highest risk in a family business is the transition to the next generation. The founder so often has a plan for the future, and a dream of how the business will continue. The shape of the box has been determined; the question is how to fit the peg of the young family member into the hole in the box.

Another metaphor is that of a CEO of a family business who looks at the younger family members as if they were young plants in her garden.[1] The focus is on them and their needs and talents. The more they flourish, the more the entire garden benefits.

Focusing on the interests and talents of the next generation instead of the current needs of the business reveals many ways to nurture and inspire younger family members. This will also encourage an emphasis on the future of the business. The more the younger family members flourish as confident and competent individuals, the better the odds of outwitting the three-generation proverb of failure and continuing with a successful family business.

Below are eight practical examples of how a family business can nurture the young generation – for the eventual benefit of the whole family and its business.

1. Summers and shadows (and exchange internships)

Summers

This is such an easy step that most family businesses do it without much thought. Children who grow up involved in a family business are more likely to develop an interest in being part of it. At young ages they can start with helping out during the summer. The more variety, the richer the experience will be.

Shadows

As they reach university or college age and are focusing on their own career choices, they can shadow employees in the family business. As a shadow they would follow an employee for a day or week; a series of rotations would be valuable. This is a simple but direct way to get to know the business.

Exchange internships

Finally, exchange internships can be arranged with another family's business. A young adult from each business family can have a summer internship at the other family's business. In addition to the supportive nature of these exchanges, they give younger family members an experience in another family-owned business – and these are different from public companies.

2. Junior boards

Young adults can learn how to become competent board members by having the family business create a junior board. The junior board would represent, and be elected by, the younger generation. It could follow the procedural rules of the main board and act as a liaison with the main board.

For example, one junior board begins with a report from the most recent main board meeting. A representative from the junior board attends each of the main board meetings as a non-voting participant. The junior board then has a chance to discuss the issues, and its comments are reported back to the main board by its representative.

In addition, the junior board can raise its own issues for the main board to address. This allows productive, two-way communication to develop.

3. Talent testing

Some Latin and Gulf families are very organised about testing the talents of younger members. They want to encourage them to use their skills and find a

1 Credit for the metaphor goes to Leslie Voth, CEO of Pitcairn (USA)

fit for those skills in the business. One family member was interested in videography; the company added video clips to its website and sales presentations.

In the US some families encourage younger members to understand their unique strengths. Again the reason is to nurture individual talents. Two easy online tests are 'VIA Signature Strengths' at www.authentichappiness.com (free), developed at the positive psychology school at the University of Pennsylvania, and the Gallup organisation's 'Strengths Finder' (www.gallupstrengthscenter.com; nominal fee). Sharing each person's strengths encourages the family to appreciate its diversity, as well as adding new talents to help the business grow.

4. Coaching and mentoring

In the corporate world there is an entire industry of executive coaches. Family-owned businesses seldom include these professionals, but they could benefit greatly from them. As well as business issues that would be addressed in the public company environment (leadership, communication, team participation, earning respect, etc) there are unique challenges for a family member who works in a family business. The most serious difference is that a family member will be seen by the other employees as one of the owners (present or future). The natural effect is to avoid criticising the family member.

Many family businesses have a policy that a family member who works in the business must report to someone who is not a family member, but that still leaves the boss reluctant to criticise. Bringing in an independent outside coach can supply the needed frank feedback and assistance.

In addition to the professional coach, it would be great if every business were filled with volunteer inside mentors. These mentors can use their knowledge of the business and its politics to help the new family member employee grow. In the US there is a network of cross-mentors, where a seasoned employee from one public company will act as a mentor for a new employee in a different company. Family businesses could organise similar cross-mentors. Again, the goal is to build strong, competent family members, for everyone's benefit.

5. Venture funds

There is growing global recognition that for a family business to flourish for many generations the original entrepreneurial energy must be encouraged. Some families encourage family members to be entrepreneurs, with the risk that goes with it. They realise that mere maintenance will not guarantee a long life for the business.

A family venture fund can be created to fund entrepreneurial activity in related or unrelated areas. The fund is created from the profits of the business and managed by family members. A family applicant for funding must present a clear business plan, including a pay-back schedule. If approved, the family investment is made and the project is monitored by family members. Interest in this structure is growing, particularly in the Gulf region.

6. Family banks

Recently families have also been considering setting up their own family bank for the benefit of all family members. This fund is also created from some of the profits of the family business, but is operated in many ways like a full-service bank (restricted to family members). Family members can take out loans (and pay interest) for personal purchases as well as to start new ventures. The oversight and monitoring is carried out by family members.

This approach blends private spending with public (family) viewing. For some families this is an advantage, as it emphasises transparency and accountability for family finances. Some family banks actually require each family member to be an owner of the bank, even if some shares are small, to include the entire family in the accountability.

From a governance perspective, a family bank is another opportunity for younger members to participate on the board and serve on a committee. There could be committees on loan approvals, investment strategies and venture project oversight.

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7. Board rotations

When a family owns multiple separate operating companies, each company should have an active board of directors. Those board positions are excellent chances for younger family members to rotate through the companies. They will be able to learn about each of the businesses from a strategic level. Usually there is also a holding company at the top of the businesses; this would benefit greatly from having family members gain experience of each of the subsidiary companies at their board levels.

8. Education

Finally I come to the education of the younger generation. Policies about education vary by family and by the nature of the family business.

To start with an unusual extreme, the Cargill company (perhaps the largest family-owned business in the world), which has no family members working in the business, has an employee in its family office who is responsible for family education. Their goal is to educate the family shareholders on the nature of the business, even though they will not be working in the business.

Several families in the Gulf region have written into their family constitutions that the family council will oversee the entire education (from the youngest ages to postgraduate degrees) of every family member, whether or not they work in the family business. This recognises that the success of the family and of the business will depend on the strengths and talents of the family members.

Often a family business will set educational requirements before a family member can work in the family business (e.g. they must have a university degree in a certain field with certain grades). Other families still prefer a case-by-case approach.

Finally, there are many family business educational programmes. Some are university-based (e.g. Harvard, Wharton, INSEAD, IMD, Kellogg) and some are membership networks of family businesses (e.g. FBN, FFI, CAFÉ).

Conclusion

Family businesses can focus on how they can nurture family members as employees and/or as owners. The benefits will be showered on the family members and on the growth and endurance of the family business itself. ■

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