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Planning beyond the horizon
A multi-generational outlook

At a time of greater distance, family enterprises need to work more closely than ever.

Foreword: Learning from and accelerating beyond the pandemic

As we work towards a post-pandemic recovery, the actions we take now could accelerate us through the next decade. Family enterprises, comprising more than half of all private sector firms in Canada, are perfectly positioned to catalyze and transform our Canadian economy, for the benefit of all.

After more than a year of learning from a myriad of challenges and opportunities, organizations are beginning to look up and beyond the pandemic, with the knowledge that we cannot be satisfied with going back to "the way things were." In an era of technological and economic disruption and uncertainty, our future success requires us to expand our thinking to plan for the next decade with the same discipline and focus we bring to planning for the next quarter or fiscal year. To realize new ways of being and doing, we must experiment, test, and adopt new models, lead with purpose and humility, strive to be a force for good in our communities, and commit to action.

Thriving family enterprises build resilience through a multigenerational outlook and an ability to transition assets and an entrepreneurial orientation onto the next generation. Family enterprises now face an accelerated pace of change and will require fresh thinking and support to guide them through the inevitable transitions that will take place in both the family and the business. New models, skills, and practices will be needed more than ever to sustain family well-being and to realize the family's business objectives.

A 2019 Deloitte global survey made this strikingly clear, having found that only 35% of the family enterprises surveyed said their business objectives aligned with family goals and less than one-third of respondents said their families agree about the business' future development[1]. At the same time, family legacy and tradition were the respondents' highest priority over the next two decades.

This paper examines the benefits of a multi-generational outlook, the key role of family enterprises in the post-pandemic recovery, and the challenges families face that can put a legacy at risk. We hope this paper offers you perspective and sparks a conversation within your family and family enterprise as you continue to build a more resilient business and safeguard the future for our communities and generations to come.

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[1] *Deloitte Global Family Business Survey*, Deloitte, 2019

The key role of family enterprises in the post COVID-19 recovery

The global economy has reeled from the multiple blows dealt by the COVID-19 pandemic. Family enterprises will be vital to driving recovery and creating jobs.

The pandemic has magnified the power of family business owners. Many of the world's most successful companies are owned by families, and they have significant capital to deploy worldwide. In challenging times, well-managed family businesses outperform non-family competitors, due to the uniquely long-term nature of their vision, their ability to take bold, decisive, and quick action, and their willingness to invest even in adverse conditions to keep working towards their goals.

Where other large corporations see risk, family enterprises see opportunity. In previous economic recessions, family-owned companies have survived at a greater rate than non-family companies by keeping their eyes on the road ahead, launching new products and preserving their emphasis on corporate social responsibility.[2]

A recent study[3] by Italy's Bocconi University showed that family enterprises were more resilient than non-family organizations, with the best financial performance delivered in businesses where a family was both the controlling shareholder and held the CEO position during the pandemic.

This success is partly because the form of ownership gives families hidden power. Leaders can immediately and fundamentally change every aspect of how their company works. Family enterprises have the combined power to make the smart decision and to execute it.

Successful family enterprises also operate to perfection. Rather than being satisfied by hitting corporate targets, the work is never done. These organizations constantly find areas that can be improved.

But their biggest strength in a crisis is that they are underpinned by a strong culture that's rooted in family values. This culture not only saw many family enterprises giving back during the pandemic, it also inspired loyal employees, often with decades of tenure, to rally to the cause. Charismatic and respected family owners create a huge amount of trust and goodwill. And that cuts both ways. Family businesses are willing to avoid layoffs during downturns, promote from within, and invest in people.[4]

Most family-owned companies are also set apart from corporate counterparts because they have a higher central purpose than simply returning money to shareholders. Once successful, family enterprises are all about legacy. Not just protecting the family but standing for an idea, taking on a respected role in society, or simply being the best in the world at what they do.

By holding on to purpose during challenging times and being prepared to invest for longer returns, family enterprises avoid the short-term, knee-jerk decisions that can be disastrous in a crisis. We were not surprised to see that, during the pandemic, family-controlled companies have been the ones most likely to double down or make a move to seize market share.

Finally, family enterprises have the advantage of experience. Many of the great ones of the world have endured a crisis before and have been more resilient to the pressures of a crisis than less-experienced organizations.

In short, we believe family enterprises will be at the epicentre of the world's recovery and growth, particularly in Asia.

[2] Saim Kashmiri and Vijay Mahajan, Why Family Businesses Come Roaring out of Recessions, Harvard Business Review, April 7, 2014.

[3] Mario Daniele Amore, Fabio Quarato, and Valerio Pelucco, Family Ownership During the COVID-19 Pandemic, CEPR Discussion Paper No. DP14759, May 20, 2020.

[4] Nicolas Kachaner, George Stalk, Jr., and Alain Bloch, What You Can Learn from Family Business, Harvard Business Review, November, 2012.

What does it mean to have a multi-generational outlook?

While public companies think in quarters, family businesses think in generations.

In a fast-changing world, family owners know they cannot sustain a single business forever. Global, multi-generational business families are rarely in the same business they were in a generation ago, let alone a century ago. They diversify, start new businesses, sell old ones, and foster entrepreneurship alongside tradition.

One Japanese kimono manufacturer that dates back to 1688, for example, has expanded into carbon fibre production for materials companies. Its core competency, 3-D weaving, remains the same.

It takes a different mindset to steer a company across centuries. And that starts by taking a multi-generational outlook. In practice, this involves changing the conversation from talking about ownership to a dialogue where the spotlight is on stewardship.

This new lens means that the role and responsibility of existing owners is to nurture the business and ensure it is placed safely into the hands, processes, and operations of the up-and-coming generation.

In our 2019 survey, almost two-thirds of respondents said long-term value was more important than short-term results. Only 8% said they felt under strong pressure to meet short-term financial results.

This is the opposite of the way listed companies think about and operate their businesses. Public enterprises look one to five years ahead and try to sense and respond as quickly as possible to events as they happen. Conventional thinking says this approach is the best way to cope with change and uncertainty.

We disagree. In our experience, it often results in companies spreading themselves ever more thinly to deal with an ever-expanding array of initiatives—projects that tend to be incremental because they are responding to short-term events, not long-term trends.

We believe this 'short-termism' is why the average return on assets for all public companies has declined by more than 75% since 1965.[5]

Conversely, in a family enterprise with a multi-generational outlook, the one- to five-year horizon gets almost no attention. Instead, we start with the 10- to 20-year period ('zoom out'). This is when we assess what an enterprise's industry or relevant markets will look like, and what it needs to do as a company to be successful in that environment. Then, we bring it back to the present ('zoom in') by selecting two or three initiatives the enterprise should be pursuing over the coming year to move toward that future.

[5] John Hagel, John Seely Brown, Maggie Wooll, and Andrew de Maar, The paradox of flows: Can hope flow from fear?, Deloitte University Press, December 13, 2016.

This 'zoom out to zoom in' approach is especially well-suited to family enterprises, allowing them to both prepare for the future and achieve greater near-term impact. It works because family business leaders tend to stay in their positions longer than corporate CEOs do. This means that they and their successors are far more likely to see major projects and initiatives through to conclusion, and to keep regularly stepping back to evolve their outlook.

It's important to take the time to discuss long-view issues not only in every management meeting but in every family council meeting.

Families that can appropriately define both their 10- to 20-year aspirations and their six- to 12-month initiatives—and maintain a clear line of sight from one to the other—will stand a far greater chance of staying ahead of the game for years to come.

But this may not happen unless family enterprises:

1. **Formalize planning processes**
   Typically, companies hold annual off-site meetings, in which free-wheeling discussions may not translate into concrete action once everyone returns to work. However, when we 'zoom out to zoom in,' we put capability-building on a schedule, deploy actual resources toward chosen initiatives, and put in place metrics to measure whether they are progressing as planned.

2. **Put family governance in place**
   Family enterprises typically have excellent business governance, but few operate with the same level of rigour when it comes to family meetings or communication. Yet, to plan beyond the horizon, it's essential for the next generation to be included in the long-term decision-making to ensure the alignment of family strategy with business strategy. In this case, family governance is the foundation of business governance.

3. **Prepare the rising generation**
   Letting go is not simply about the incumbent generation giving up power. It's about preparing and educating the rising generation. Heirs to family businesses can't sustain their leadership through raw power. The previous generation and their stakeholders must grant them the authority to lead. Preparation should be focused on how to nurture the rising generation, setting multi-generational targets together and using any deviations from meeting these targets as learning experiences. Learning together as a family sustains the family's power to adapt to disruption.

Zoom out questions

What will our relevant market or industry look like 10 to 20 years from now?

What kind of company will we need to be 10 to 20 years from now to be successful in that market or industry?

Zoom in questions

What are the two or three initiatives that we could pursue in the next six to 12 months that would have the greatest impact on accelerating our movement toward that longer-term destination?

Do these two or three initiatives have the critical mass of resources needed to ensure high impact?

What are the metrics that we could use at the end of six to 12 months to best determine whether we achieved the impact we intended?

Case study

Preparing the 5th generation

Established in 1869 as a blacksmith's shop in the Netherlands, the Terberg Group of companies is now a US$1 billion supplier of specialized vehicles, from terminal tractors to cars that offers both conversions and new builds. It operates 28 companies in 12 countries. George Terberg, chair of Terberg Group's board of directors, represents the fourth generation of the family.

The Terberg Group is currently led by the family's fourth generation, but of the 40 family members in the fifth generation, two are also active in the company. "A 'fifth generation committee' is helping the fifth generation become committed, enthusiastic, passionate, and inspired family members," said Terberg. Fifth-generation family members pay an annual visit to one of the operating companies and get career advice, but they can't join the company automatically.

Standards are high, Terberg explained. "Family members who want to join the company must have the potential to become leaders of one of the bigger companies. They must have a university degree or a degree from another higher professional education body. They must also have at least five years of work experience outside Terberg. After that, they can apply for a job, and we will make an assessment. These are high thresholds, but it is also a better way to guarantee the continuity of our family business. Ultimately, my generation is responsible for properly passing this company on to the next generation."

"A 'fifth generation committee' is helping the fifth generation become committed, enthusiastic, passionate, and inspired family members."

George Terberg, Chair of Terberg Group's board of directors

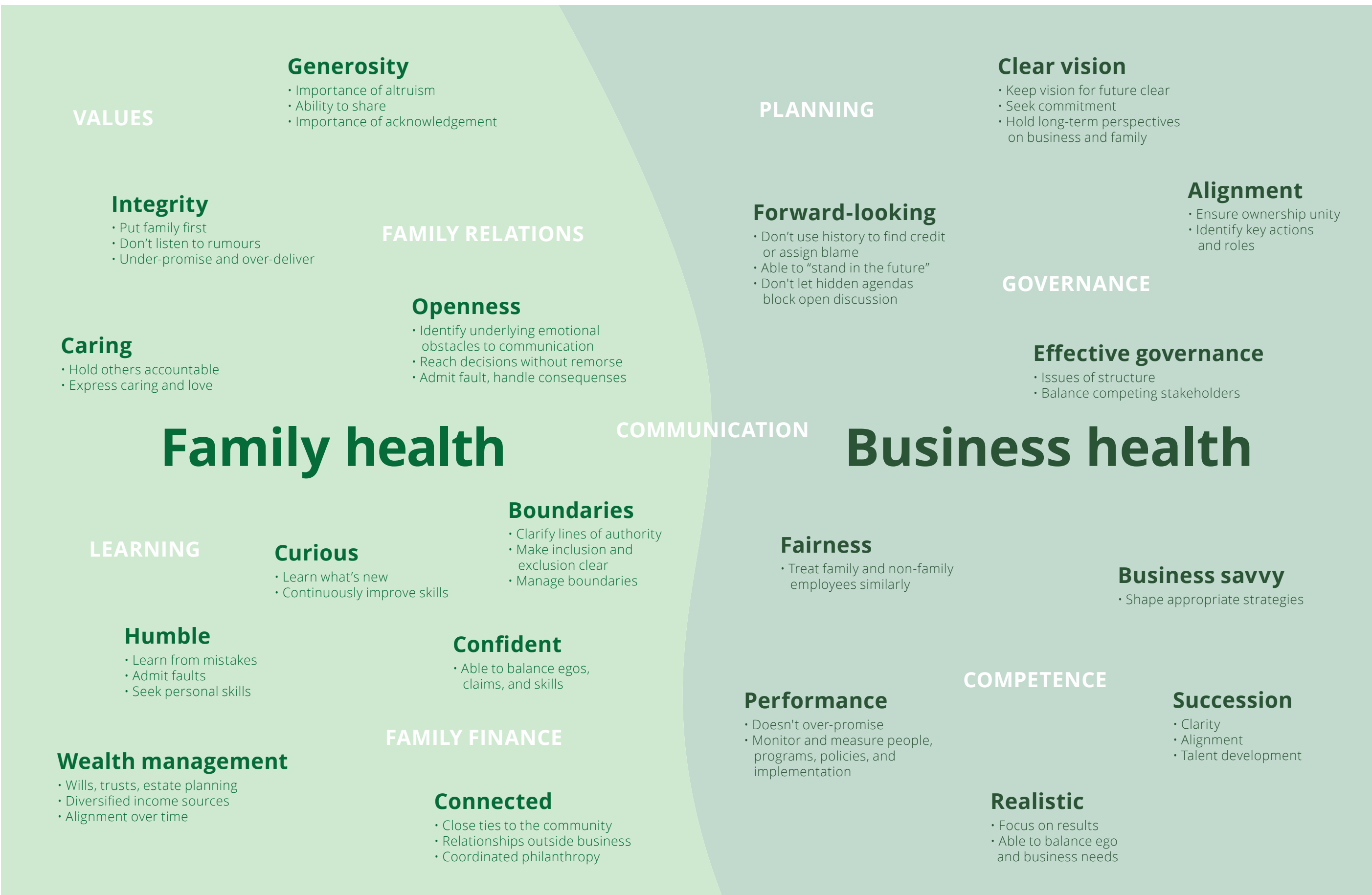
How well are you balancing family and business health?

Underlying family dynamics amplify or detract from the success of your business.

Well-managed family businesses outperform their listed competitors when family members develop strategies and governance processes to manage their interaction with the business. But, without defining the roles of family and business, or formally managing the overlap, the result can be fractured relationships, loss of wealth, destruction of business value, and lack of legacy.

After decades of helping family enterprises work through complex issues, we have seen first-hand the impact and correlation that a business issue has on a family's health—and vice versa.

And a toxic family situation can be more disastrous than a bad business strategy. In our experience, a business problem causes family issues in the next 12 to 24 months. But, where issues emanate from family friction, the business is impacted in a far shorter time frame.



From working with many of the world's leading family businesses, we have developed a field model that helps families understand the interplay between business and family health. It helps them look through two lenses:

Business health	Family health
Planning	Values
Governance	Family relations
Competence	Learning
Communication	Family finance
	Communication

Red flags that your family health is not up to scratch

In terms of how it interacts with the business, family health depends on values and trust, concern and care for each other, a sense that the future needs to be different from the present but build on it, and the confidence to pursue the family's ambitions.

Warning signs that these vital elements may not be in place include:

Lack of communication/ transparency

Communication is the vital link between the business and the family. Without a shared sense of values and an agreed strategy across the generations, family enterprises can lose their way. Often, families struggle to hold meaningful conversations about both family and business issues, which remain left unsaid, fostering resentment. Common danger signs are the lack of proper discussion forums and a private record the founder keeps to keep track of who has been given what. Without the right facts, children make incorrect assumptions. And this is made worse if the family has lots of informal or piecemeal discussions, perhaps around the dinner table at the weekend, with kids running around and some family members absent or in the kitchen. Sometimes, siblings plead their case privately with one or other parent, resulting in informal 'promises' that rarely pan out, unintentionally creating more inequality. In other cases, no one is comfortable raising an issue for fear of being excluded from the next discussion.

Preceding generation still in control

Many family business leaders seem to perceive succession as an event that they would rather not acknowledge or deal with. Yet an orderly succession is crucial to keeping the business on track for both the immediate and the far future. We've heard every excuse from founders struggling to let control pass to the next generation: "They're not ready yet. There's a big deal coming up." It often takes a health issue to force a handover, which is the worst possible time and way to manage transition. As a founder, it's important to set up clear roles, pathways, accountability, and support structures for family members to be successful. Children need independence—including financial independence. Too many founders handcuff their family to the business by keeping all the wealth and family assets under their control. Parents like to appear to be supporting the next generation, but often keep looking over the fence to make sure things are being 'done right.' That sort of subtle oversight can undermine children. The answer is to support the transition of power by setting (and respecting!) decision-making responsibilities.

Lack of education for the next generation

After generations of compound growth, some family businesses get so big it's hard for the next generation to learn all aspects of the enterprise. Do children know how the family business was started? Can they read financial statements? Do they understand their career pathway, or why they're being asked to work in certain parts of the business?

We recommend starting family members early in their career, rotating them through various departments, encouraging them to gain experience with an outside company, and ghosting senior executives. Zoom-out sessions are particularly useful for educating younger family members and helping them to think about the business ; this helps current leaders to see who the truly strategic thinkers are. These planning sessions offer younger generations the opportunity to engage in the process as challengers, questioning the sometimes long-held perspectives about the state of markets and where they are likely headed. This allows them to contribute immediate value to the business, and see their future in it. Their insights are also useful as they are fresh and often not biased by what has led to success in the past.

Inequality among family members

Healthy family governance starts with leaders dealing with any unfairness issues. Little things can cause big cracks. We've seen families explode over grievances such as who gets the frequent flyer points, unequal use of family holiday homes, siblings with different salaries, and spouses working in the business.

The answer is a transparent system that includes market salaries for those in the business (so children are paid what the work they are doing is worth), and more clarity on the amount and timing of distributions. Setting the rules early and then sticking to them is key. Take, for example, the question of whether spouses should be allowed to work in the business: explaining that the family has a rule of "no spouses" may be a more prudent path to take than having to deal with a non-performing spouse, which, from our experience, can almost certainly cause irreparable damage to at least one branch of a family.

Lack of governance/structure

Formal governance structures typically create an environment where discussions can be held about culture, values, and vision, which are essential if family members hope to agree on their company's direction. The benefits often include greater harmony among family members, a more focused business, and easier transitions between generations.

So it's important to ask: When was the last time the whole family came together to formally discuss the business? Some families opt to sign a formal agreement stipulating their values, investment parameters, decision-making responsibilities, and communications schedules. This is helpful and in our experience advisable, but the most valuable part is all family members getting together to jointly decide what those things look like and how they will happen. When they understand the big picture, family members settle down and stop making incorrect assumptions. Once appropriate forums are available, the right topics are discussed and communication is effective, many apparently intractable problems also fade away.

Even one or two of these red flags can be enough to lead to the demise of a family enterprise. With the right help and guidance, all of the above issues can be managed, and the increased alignment will help family enterprises thrive over the long term.

Case study

Success factors of a 200-year-old family enterprise

Japan has 33,000 businesses at least a century old, but one of its most famous companies has been operating for more than 200 years and is controlled by the same family. While using a strict Japanese one-branch succession plan, the family is also open to using and combining global family governance and business management best practices with Japanese best practices to create a unique family governance model to ensure the sustainability of the family, the family's wealth, and the business itself. Drawing on the best advice and practices available, this US$2.5 billion business has navigated successfully through major domestic and international changes and has continued to go from strength to strength during the pandemic.

The eighth-generation patriarch has already identified two generations of successors.

The keys to its success are:

Multi-generational planning
On the family side, the eighth-generation patriarch has already identified two generations of successors. On the business side, this company started investing internationally at the turn of the 20th century in response to its awareness of the shrinking Japanese population and changing customer preferences.

Zoom out to zoom in
The business always attempts to assess what its market/industry/customer preferences will be like decades in the future to determine how it needs to change today. A similar approach is used to plan the family's governance.

Strong family governance
Everyone understands that long-term family survival and sustainability is the ultimate goal. Family governance measures are constantly updated. The whole family knows what the plan is and everyone is involved. Regular communications make it clear where control is going and who does what. Every change comes with a risk assessment—communicated to everyone—of how it will affect the family structure and what could be the implications.

Separation of family and business risk
Personal assets are kept strictly separate from the business entity. The family believes the business can always be restarted as long as they retain the family unit, their joint experience, and assets to carry on.

Never-sell strategy
The business has always remained private and the family will never sell, no matter how much money could be generated through an IPO. It prioritizes family sustainability and legacy over quick profit maximization.

Blended Japanese and Western governance
The patriarch seeks out strategies used by other successful families around the world. As a result, the family office uses foreign structures like trusts and foundations and looks to jurisdictions that aren't necessarily tax-minimizing, but have a very good legal base. The family has also worked hard to align its corporate and family governance.

Professional family office CEO
This CEO does not come from the family, is very diligent, and always looks to blend the best practices of Japan and the rest of the world to meet the family's short- and long-term needs.

Put your family and your business to the test

We've developed a family dynamics program to help family enterprises understand where alignment may need to be improved within the family or the business, delve into core issues, and check whether governance needs to be improved. Some of our proprietary tools to get families started include the following, but the real value comes from working with our team, which has worked through almost every family issue imaginable:

Family and business health diagnostic

A great first step to work with the entire family is to make an assessment of where the family's strengths and opportunities are within their family and business. This diagnostic tool frames up the importance of family and business health and quickly leads to the creation of tactical actions that can be taken to reinforce, adjust, or improve the factors that underline the chances on sustaining a well-functioning family and business into the future.

Family interview process

This process is a natural extension to the family and business health diagnostic. During it, we interview all of the family members one on one. It gives each family member an opportunity to talk in confidence about matters important to them. During the sessions our experienced practitioners explore each person's views on a wide range of topics to better understand where the family is aligned and where it's not. After speaking with everyone, we report our findings to the family unit and recommend specific things each family member can consider implementing to enhance the chances of future success for the business and the family – One of these actions may well be formalizing the decisions that were agreed upon during the interview process into a family agreement.

Family governance health check

Many families may already be practising a number of elements we consider to be best practice in family governance in their own right. Our health check tool is a quick way for us to assess the appropriateness and completeness of a family's governance framework and provide suggestions on how it may be improved.

There's no single model of family governance. It's a matter of looking at all types of best practices, choosing what resonates with you, and tailoring them to your unique business, culture, and family situation.

Talk to us about how to take a multi-generational outlook and find out what type of family governance will work for you.

Deloitte Private Global Family Enterprise Center of Excellence

With 175 years of experience serving family enterprises in more than 140 countries, Deloitte Private brings multi-dimensional perspectives —a 360-degree view—of all the challenges and opportunities you might face as a family enterprise.

Our multi-disciplinary and purpose-led approach ensures that we bring the right solutions to you at the right time through a holistic lens of understanding the specific family enterprise issues and dynamics you might be facing.

Through our Global Family Enterprise Center of Excellence we bring together a network of trusted advisors, collective leading practices, sector knowledge, and digital tools to develop world-class, bespoke solutions and data-driven insights.

Our people bring not only their deep experience and connections to other family enterprises, but also the full Deloitte organization to you.

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