



The Resilient Family Enterprise series

## The role of governance in family enterprises: Navigating purpose, power and performance

Even during the most stable of times, family enterprises are challenged to balance two simultaneous priorities. There's the natural progression of the enterprise itself, from a first-generation start-up to a more complex multi-generational enterprise with diversified business holdings and interests. This is a journey that rarely is linear and requires constant and immediate attention because of changing market conditions, innovations, and technological disruption. On a parallel track, the family itself evolves, adding complexity and opportunity with each generational transition. As the business and family grow, internal tensions build between what might appear to be competing aims—love versus power, tradition versus innovation, profit-making versus social impact, and even the family versus the business.

Those divisions can become accentuated when a crisis like the COVID-19 pandemic comes along and adds fresh urgency to the ever-expanding complexities and challenges involved in running a family enterprise.


### The role of governance

Many successful, multi-generational family enterprises have responded to such challenges by creating good governance practices, principles, policies, and capacities. What does that look like? They institutionalize continual reinvention by asking themselves whether they're doing all they can to disrupt rather than be disrupted. They prioritize regular and transparent communications. They recognize the boardroom is a place to benefit from independent opinions from

those with diverse experiences. They have clear decision-making processes, seeking input from family members on far-reaching decisions.

In addition, they make a habit of learning. What went right? What went wrong? Particularly at a time when all companies are being forced to make difficult decisions, this type of constant self-assessment might be the most important dimension of good governance. The lingering nature of the current pandemic reinforces the importance of strong governance. But in order to do that, those who lead them must come to grips with what they ultimately want to accomplish.





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### **Signs of wear and tear**

Family businesses often enjoy an advantage over their nonfamily counterparts when it comes to being able to quickly adapt, but the COVID-19 pandemic has shown that streamlined organizations can become paralyzed when the founder or other key decision makers are unavailable, overwhelmed, or lack the ability to draw on other expertise and perspectives. Concentration of decision making is one of the most obvious examples of how a lack of good governance could increase risk in family enterprises. Additionally, families that struggle with, or don't embrace governance principles may tend to ignore disruptions in the marketplace or minimize their significance, split into competing factions more intent on blaming than correcting, or take drastic actions without sufficient debate, reflection and objective input.

### **Navigating the three Ps**

Family businesses that survive for multiple generations consistently ask and answer fundamental questions about their shared purpose. As we discussed in our last article in this series, COVID-19 has provided an opportunity to supercharge these efforts. Rather than resisting change, many family business leaders are determining how the crisis is not just impacting their business in the short run but how their response should align with the enduring values that they hold dearest.

These vital conversations could position more family enterprises for lasting success, because purpose sets the roadmap for how well-run companies handle two other important governance domains: power and performance.

Once you have a clear purpose, it's easier to share power. Roles and decision rights crystalize around what's important to each individual family member, and they gain ownership over certain aspects of running the business. Once these responsibilities are carved out, the family can devise policies and create forums to strengthen communication, aid collaboration and learning, and address differences and any disputes that might arise. By sharing power through purpose, succession planning becomes a far more inclusive and collaborative process, instead of a high-risk event that can harm both family and business.

Defining what your family wants to achieve together, as well as protect, can make it easier to make decisions together and measure performance. Purpose sets the bar for true success, by extending its measurement beyond pure financial metrics. We see evidence of this in the scores of family businesses who are looking for ways to expand their "family capital" in the broadest sense, by focusing on human, social, spiritual, and legacy goals in addition to financial gain.

### **The magnetism of the moment**

Times of considerable anxiety tend to show us what we're made of, and that is certainly true of family businesses trying to cope with the COVID-19 pandemic. When you have friction going into a crisis, and no structure for resolving it, it becomes that much harder to see your way through. But the opposite is also true—for families that have a tried-and-true system for organizing themselves, adversity can be unifying.

COVID-19 is teaching family businesses many lessons about preparedness, agility, and adaptation. It is also underscoring the need for critical self-assessment—a hard look at what's working, what isn't, and what's not even being discussed that probably should be. That's what good governance is all about today—building resilience. It's a big reason why family businesses have contributed so much to our societies for so long, and why they are primed to persevere in this moment with grace and compassion.



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