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Loyola University Chicago  
Family Business Center

Family Business Stewardship Institute

*Strategy/Finance*

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**E**ngaging in formal strategic planning is integral to the long-term success of any enterprise. Rare is the organization that endures and thrives without understanding the climate in which it operates, clarifying its values and ethics, and developing and executing strategies that effectively leverage its opportunities.

For family-controlled businesses, the effort and intention involved in crafting and executing strategy generate particularly rich opportunities to further elevate their performance and to ensure the long-term vitality of both the business and the family.

### *Harnessing a competitive edge*

Well-managed family firms possess the potential to outperform their non-family counterparts—in profitability, stability, liquidity, employment, upholding of ethical principles, and philanthropy.<sup>1</sup>

Studies show that when a business-owning family is cohesive, it's more likely to support the business in times of crisis and weak economic performance and less likely to extract business funds for unproductive purposes. Families that share a joint vision and unified

values will handle succession better, will use resources efficiently, and will resist undermining one another.<sup>2</sup>

While multigenerational family firms do many things right in achieving long-term success, among the most important may involve harnessing the strengths and loyalties of a broad swath of stakeholders.

Unfortunately, the majority of family businesses squander the opportunity to achieve their fullest potential. Less than one-third of all family-controlled organizations survive into the second generation, with 12% surviving into the third, and only about 3% operating into the fourth generation or beyond.<sup>3</sup>

In many cases, managers unwittingly harm the enterprise by surrounding themselves only with those of similar backgrounds and mindsets—stifling creativity and innovation, and squandering the valuable energy and loyalty of a diverse group of stakeholders.

### *Crafting strategy: Grappling with the profound questions*

As a family business evolves, each generation of owners faces profound questions:

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<sup>2</sup>Ibid.

<sup>3</sup>Family Business Institute.

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<sup>1</sup>Pieper, T., and Astrachan, J.H., Mechanisms to assure family business cohesion, Cox Family Enterprise Center, 2008.

- What do we need to hold on to and preserve about our family businesses?
- What do we need to change in order to survive and grow?

Brimming with energy, the younger generation yearns to drive change and leave a mark on the world. At the same time, members of the battle-weary older generation typically want more stability.

Clearly, questions like these are too complex and critical to leave to casual or reactive decision-making.

*The family firm that effectively prepares family members and other stakeholders to contribute energy and innovation on behalf of the family's many interests positions the enterprise to achieve profound and enduring success.*

Creating that foundation of well-prepared decision-makers involves a commitment and a well-developed strategy.

Research bears this out: Family organizations that have created written strategic plans tend also to possess other characteristics linked to survival and success: greater profitability and employment, and more frequent board meetings and family meetings. Such firms also tend to have in place written succession plans, buy/sell

agreements, formal redemption plans, formal valuations of company shares, and qualification policies for employing family members.<sup>4</sup>

### *Challenges to engaging stakeholders*

The Family Business Stewardship Institute's extensive work with successful organizations underlines the advantages of deliberately cultivating the contributions of every stakeholder who wants a role.

By training stakeholders to understand the business' language and objectives, the organization benefits from the questions and input of those with diverse experience and backgrounds.

Nevertheless, barriers to stakeholder engagement may persist. Consider the following dynamics:

- **Managers' reluctance.** Too often, the CEO in a family business—erroneously believing that her *primary* job is to run a profitable business, free of family emotions

<sup>4</sup>Astrachan, J.H., Allen, I.E., Spinelli Jr., S., and Wittmeyer, C.B., American Family Business Survey, MassMutual Financial Group/Raymond Institute, 2003.  
<http://www.fambiz.org.au/wp-content/uploads/2003-Mass-Mutual-FB-Survey.pdf>

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and conflict—works hard to protect the business from the family.<sup>5</sup>

To be sure, when a previously hands-off owner suddenly shows new interest in the business, anxiety may rise throughout the system, testing the CEO’s abilities to manage family dynamics and emotions alongside the needs of the business.

But FBSI advocates reframing such “interference” instead as a valuable resource worth harnessing. The CEO’s job, after all, includes *skillfully managing family dynamics and emotions—engaging in the sometimes-difficult but important conversations that are key to keeping ownership unified.*

The successful CEO of a family business will establish clear expectations, ensuring that family members both inside and outside the business understand their roles and responsibilities to the company, to one another, and to the larger family group.<sup>6</sup>

Further, the effective CEO will invite family members to collaborate with executives in developing the business’ vision and strategy.

To create space for these conversations, the successful multigenerational family firm may create a family council, complete with standing committees. It may convene regular meetings for the larger family, separate from the business meetings, where the CEO shares information about the company and its performance, and sets expectations regarding dividends, reinvestment, growth and liquidity.

- **Owners’ reluctance.** Among stakeholders, reluctance to engage may stem from a lack of formal business education or experience in the business. Some individuals believe they have nothing to contribute. The owner who remains on the sidelines may be introverted or intimidated, or may have internalized a subtle message that the input of non-employee owners is not welcome. They play it safe, continuing to hand off authority to senior managers.

Here again, however, FBSI advocates training owners to see themselves as active stewards of their investment. Owners who commit to learning about the business and asking intelligent questions find themselves gaining the respect of management.

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<sup>5</sup>Keyt, Andrew. [4 tips for successfully leading a family-owned business](#), Chief Executive magazine, 2015.

<sup>6</sup>Ibid.

## Toolbox: Applying a classic business framework to the family's own process

FBSI advocates that the business-owning family engage in *its own formal strategy-development process*. Consider how Wheelen and Hunger's Strategic Management Model, widely considered a best practice for profit-making entities, can apply to the family as a distinct organization.

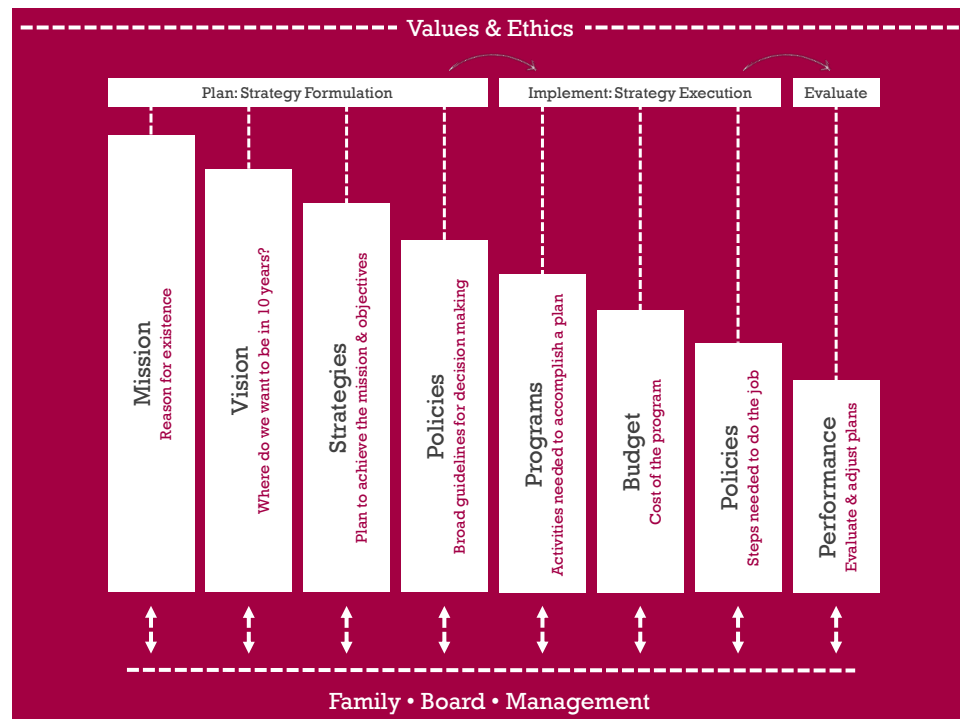


Figure IV-V. 1. Strategic Management Model

To leverage its full potential, the successful business-owning family will first articulate its **Values and Ethics**—which then inform every step of the strategy process:

### Planning: Strategy Formulation (Developing Long-Range Plans):

- Mission: Reason for our existence
- Vision: Where we see ourselves in 10 (or 25) years
- Strategies: Our plan to achieve our mission and objectives
- Policies: Our broad guidelines for decision-making

### Implementation: Strategy Execution (Putting Strategy Into Action):

- Programs: Activities needed to accomplish our plan
- Budget: Costs of programs
- Procedures: Steps needed to do the job

### Evaluation:

- Performance: Evaluating, providing feedback, and making adjustments

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Finance Wheel Here

Business and finances

Investment strategies

Estates and trusteeship

Parenting children of wealth

Family offices and foundations

*Demystifying the numbers: Where strategy and finance intersect*

For stakeholders not active in the day-to-day business, and particularly for those lacking formal business education, financial matters can seem particularly foreign.

FBSI, however, aims to demystify essential financial concepts and teach participants how to look at the family business in new ways, opening the door to meaningful participation in strategy conversations.

Often, access to basic tools and language greatly boosts comprehension. Rather than rely strictly on software programs, for example, FBSI guides participants in using paper and colored markers to identify cash flows, net worth and debt.

Participants bring to the session financial statements from their own companies. (All information shared during FBSI sessions remains confidential.) They learn to follow the money, seeing how accurately financial behavior meshes with stated strategic goals. Is the company engaging in mergers and acquisitions? Expanding overseas, perhaps? Or is it cutting back? By looking frankly at strategic moves, participants begin to evaluate how well management is walking the talk.

If the business is pursuing acquisitions, for example, participants look for corresponding changes in the income statement. Is revenue growing? How fast are expenses also growing? How long before the organization reaps the benefits of the acquisition?

If, on the other hand, the organization is seeking stability,

participants examine whether the firm is adequately controlling costs relative to labor, suppliers, facilities and debt.

Participants also learn to compute liquidity for their companies, discuss the findings, and analyze questions such as: If the company is growing and liquidity is falling, how do we allocate scarce resources?

By gaining a broad perspective of how companies manage and report information, FBSI participants learn to become better stewards of their companies and to gain confidence in relating to management.

***A parallel strategy for the family***

Once participants begin to grasp the strategy and financials ***for the business***, FBSI guides them to think about ***the family as a distinct***

***organizational unit***. Does the family have its own vision? How might that lead to family unity, happiness and success? What is the family’s mission?

Participants brainstorm about goals; educating the next generation might be one of the most important.

Much as a for-profit business methodically spells out all aspects of its strategy, so too does a well-managed business-owning family.

A family may formalize its strategy by creating a council and establishing committees to oversee areas such as:

- Governance and ownership
- Business and financial matters
- Development and education
- Family unity and philanthropy



**Figure IV-V.2. Family Strategy Pyramid**  
 To learn more about the above elements, see the companion documents (*Managing Relationships, Governance, Leadership and Managing Transitions and Family Business Continuity*) or visit the [Family Business Stewardship Institute online](#).

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The mechanisms for creating and executing elements of the strategic plan might involve holding educational sessions and quarterly meetings, and convening working groups.

Outcomes might involve estate planning, education and training funds, community projects, and family vacations.

### *Conclusion*

Developing strategy offers unique opportunities for family-controlled businesses and the families who own them to create a powerful impact, now and for the future.

Building a thriving multigenerational business involves drawing on the best practices of other successful family enterprises—particularly in training and educating family members, establishing strong governance mechanisms, ensuring role clarity, and cultivating the contributions of all stakeholders.

Simultaneously, *the family itself* can engage in parallel visioning and strategizing processes.

Where success as a business is easy to define, it's the success as a family that may offer the greatest and most enduring rewards. As family members take on new roles, they see one another in a new

light—leading to strengthened values and relationship closeness that money can't buy.

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## ***About the Family Business Stewardship Institute***

The Family Business Stewardship Institute (FBSI), a program of the Quinlan School of Business at the Loyola University Chicago Family Business Center, prepares family business owners, shareholders, and stakeholders (including non-owner spouses and future owners) for effective stewardship of their enterprises. Using a comprehensive, real-world curriculum, FBSI equips stakeholders, both financial and emotional, to navigate the significant and unpredictable transitions and decisions that determine the success and continuity of the family business.

Each of the six modules—***Managing Relationships, Governance, Leadership, Strategy, Finance, and Managing Transitions and Family Business Continuity***—consists of two- to three-day sessions taught by Loyola faculty and nationally recognized family business thought leaders. Participants engage in confidential small group discussions and peer group and social media networking. Those who complete each facet of the program earn certificates.

Continued online education, follow-up events, and connection to a lifelong network of professionals facing similar challenges help participants apply their new knowledge to current and future business challenges.

***Participants in the Strategy and Finance modules of the Family Business Stewardship Institute will build skills and insights in:***

- *Crafting strategies that ensuring business continuity and the family’s legacy.*
- *Developing and executing planning processes to support those strategies.*
- *Understanding how innovation drives strategy, and how strategies—for both business and family—evolve over time.*
- *Managing strategic dilemmas and tradeoffs.*
- *Identifying and planning for triggering and transition events.*
- *Recognizing when and how to seek assistance relating to strategy, execution and evaluation.*
- *Understanding the complex financial decisions that families face in properly stewarding assets and ensuring business continuity.*
- *Demystifying business concepts such as industry analysis, investment strategies and reporting requirements.*
- *Applying analytics to their family’s business.*

*For details or to enroll, visit [luc.edu/fbc](http://luc.edu/fbc), [email us](#) or call 312.915.6490.*

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