# Mapping the Future for Family Firms

**Family firms are dominating global business today. To ensure longevity, they must phase their many challenges through long-term planning. The first step is to design a road map for the future governance of the firm and the family.**

Managing a family business for the long run is like nurturing a tree.  If you want to be eating apples 20 years hence, you need to plant the tree now and you need to cultivate that tree over the years to come to ensure a good crop.  The same is true of the vision you aspire to for your family business. If you want to leave the firm in good condition for the next generation, you have to start planning now.

Both trees and family firms can grow to be very old with the right nurture. The oldest independent family firm in the world is the Höshi Ryokan, which has been owned and managed by the Japanese Höshi family for almost 1,300 years. Forty-six generations have successfully run this small inn which prides itself on the service offered to its clients.  The Japanese love of heritage and the importance given to a family name are key elements in this this story.  In fact, they offer an appropriate starting point for me to share the framework I depict in the book, The Family Business Map which I co-authored with Joseph P.H. Fan, Professor at the Chinese University of Hong Kong.  This framework can help all family firms to recognise the assets they have, anticipate the roadblocks ahead, and start the long-term planning needed to ensure a sustainable future.

**The Three Essential Steps of Long-Term Planning**

*First Step: Identify Family Assets and Roadblocks.*

In successful family companies it is family assets (the unique contributions that only families can bring to the firms), which form the foundation for key business strategies, whether focused on long-term growth, a well-defined niche sector, or implementing a flexible and fast-reacting management philosophy. These contributions provide clear reasons for keeping families involved in future. When family assets vanish it is time to think about restructuring the role of the family in the business.

Family assets are unique to each family and their firm. However our research has revealed some generic types, common across sectors, countries and continents, which can be identified by answering some very simple questions, such as: Do we have an important history or brand that is associated with our family name? Do we share family, cultural or religious values that penetrate the family and the way we conduct business? How important are our networks for running our business and how much are they embodied in individual family members?

Family firms need strong family assets to confront the many roadblocks ahead of them. These roadblocks originate at three levels: Firstly, there are roadblocks related to family organisation, family development and diverging family interests.

The second group of roadblocks relate to markets such as product, capital and labour markets. Family firms face unique challenges when industries grow and change in structure, in their relationship with the labour force, or in the way they can raise capital for new investment.

Thirdly, there are the institutional roadblocks which are numerous and diverse and can include political and economic instability; inheritance laws and taxes varying between countries; and government regulation which can be a potential barrier to growth. Not to mention corruption and a lack of property rights which undoubtedly constrain business activities in certain regions of the world. Depending on your location and the market you are operating in, you will have to grapple with more or less of these roadblocks.

It is essential that family firms are able to pinpoint their comparative advantages and their governance challenges. For this, they need to understand in detail the value of their family assets and their existing and future roadblocks.

**Second Step: Mapping the future: Planting the Right Tree**

Returning to the tree analogy, it is obvious that if you want to be eating apples 20 years hence, you have to plant apple trees today and not oranges or pears. The same is true of the vision you aspire to for your family business. Based on the identification of family assets and roadblocks, you need to map the right path for the next 20 years. You have to choose the right ownership structure, the right family involvement and the right management structure.

If you realise that there are many roadblocks to the current ownership structure, you have to plan the change in ownership structure now. Similarly, if the family assets are waning, such that the family is going to have to relinquish control on the management side, now is the time to determine how you will professionalise the management team. This is **step two** in the Family Business Map.

The Family Business Map provides a very simple illustration of the paths that a family can take. In general, it predicts that firms with disappearing family assets shall move towards more external management and firms with large roadblocks today and in the future shall seek changes in their ownership structures to minimise the cost of these roadblocks.

**Third Step: Cultivating the Tree**

When entrepreneurs and families have chosen the overall path, it is time to begin the cultivating. The cultivation process can take 20 to 30 years to finalise and for many family firms is an ever ongoing process.

For a "within-family succession" (namely "Closely Held" on our Family Business Map), the task is to cultivate a family successor and enhance family governance to share and transfer family assets. This may sound simple, but there are numerous considerations including how a country's culture can affect succession planning, choosing the right successor from the pool of younger family members and how to plan for changes to business strategies that may occur as the new successor takes over the business. This will be the basis of the first in a series of blog posts which will feature on INSEAD Knowledge in the months ahead.

For a firm that chooses to delegate business decisions to non-family managers ("Delegated" on the Family Business Map), it is important for the family to cultivate good corporate governance structures which encourage external management to make value-enhancing decisions in the best interests of the firm. The family needs to do this in such a way that they maintain strategic decision-making influence at board level but allows the non-family members to develop the day-to-day management of the firm. Here, values need to be aligned between family owners and external managers.

Alternatively, some family firms have strong family assets which allow them to successfully manage the firm ("Family Driven" on the Family Business Map), but they may need to dilute their ownership primarily to raise capital, with a view to growing the business. Here, the family should understand that selling shares is often not as simple as expected and can raise certain challenges such as potentially losing the firm (as happened with Cadbury's).

The final path a family can take is one of exiting the business altogether ("Exit/Passive" on the Family Business Map). This path is chosen when the family doesn't contribute very much to the firm anymore and where there may be many serious challenges (roadblocks) ahead.

So, while not all family firms will be able to survive 1,300 years like the Höshi Ryokan, there are paths which are open to your firm which are right for you, dependent on your own unique situation. What you will learn from the Family Business Map is how to best structure the long-term planning for your family firm, based on *your* unique family assets and *your* unique roadblocks. With these in mind, you can charter your future with ever greater security.

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