By **Fredda Herz Brown**

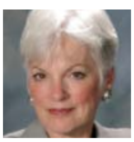
Evolving in Changing Times

Best practices to promote family sustainability

Family enterprises have long been considered a foundation of the American economy. Many of the most notable family names in our history are connected to long-term family businesses and philanthropies (for example, Ford, DuPont, Rockefeller, Forbes and Johnson). And, the more recent entrepreneurial efforts of Steve Jobs, Bill Gates and Warren Buffett have led to growing wealth for those founders and their families, as well as for those who've invested in or worked with them.

But, the world isn't the same as when these historical families grew their businesses into enterprises. The same characteristics that positively defined family enterprise are being challenged. To deal with the rapid changes in the global economy and information flow, family enterprises need to adjust their thinking and plan more broadly for their futures. Sustainability no longer seems to imply homeostasis, keeping the legacy as is or remaining as before.

Rather than thinking of sustainability as continuing what is, it's increasingly important to think of it as a process of adapting to and evolving with change so that family resources are preserved or, perhaps, enhanced. To achieve such goals, the family needs to have some best practices in place. Let's get a sense of the kind of situations families are dealing with and the practices that they can use to keep up with change by examining the business of a fictional family—the Vitals.



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A Business is Born

The Vitals are a family enterprise that's transitioning into its third generation. Like an increasing number of families, at least some of the three generations of Vitals have been part of their family economy since the business was founded. The company began as a vitamin manufacturer and distributor. Mr. V., the founder and now age 92, was a chemist and pharmacist who recognized early on that the United States had a need for a "grade A," as he called it, manufacturer of health-related "potions and pills." Not something that cured you when you were ill, but something that might help you from becoming ill. In the early days, it seemed like this was an idea before its time; there weren't many people who saw the need for much more than one-a-day vitamins. But as time went on, the United States, along with other developed countries, became increasingly interested in preventing illness and making sure that each individual received the necessary vitamins and minerals.

Expanding the Brand

Mr. V., his sons, Paul and Peter, and his daughter, Jean, who had joined him in business, continued to expand their line to include more health-related products, such as enzymes. They expanded their area of distribution to include the West Coast when they put up a distribution center in Iowa. Later, to increase the freshness and shelf life of the products, they also began manufacturing in the West.

When computers began to take hold in distribution companies, the family trained the sales force to place orders on portable tablets. Some of the sales people were no longer on the road at all; rather, they sat at desks and took orders from the national accounts. These accounts were increasingly large drugstore chains that

were becoming a mainstay in the United States, buying up all of the smaller local pharmacies.

Growing the Family Economy

The Vitals didn't use acquisition as their major method of expansion but added the sale of their products to others under a variety of labels. As their families grew in size and financial needs, the siblings began meeting with their father and the family advisors to determine how they might expand further. With the help of an advisory board, they decided that their first strategy would be to increase the family holdings by purchasing the real estate on which the distribution and manufacturing centers were located.

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This strategy made perfect sense because some of the next generation, though young, began to show interest in real estate as an investment opportunity. They were realizing that to build their family's resources and flexibility, they would need to think more broadly about their resources, rather than growing their legacy business alone or providing dividends to shareholders. This requirement meant thinking about tending to the growth of the family economy and other opportunities by using some of their return on investment from the business to build a group of assets.

Like many other families who experienced the advantages of bringing their advisors together, the three siblings decided to expand their advisory group into an independent board of directors. While attending a workshop on transitions in family enterprise, they also decided to institute another best practice and began to encourage connections across family branches by having annual meetings at which the larger family came together to learn and have fun. They used these meetings to focus their efforts on developing the intellectual, social and emotional capital of the family. They also invited the board to report on the "state of the union" on the family holdings.

Peter, Paul and Jean weren't pharmacists or chemists like their father, so they hired competent professionals to work for them. The three siblings served mainly as CEO, president and CFO, respectively, within the company and as owner/shareholders.

If you asked them, they would say that they had moved from viewing themselves as serving a business to serving their family economy, from an operational

SPOT LIGHT

Carrot Juice

"L'Explication" ($31\frac{1}{2}$ in. by $23\frac{5}{8}$ in.) by René Magritte, sold for $5,609,579 at Sotheby's recent Surrealist Art Evening Sale in London on Feb. 3, 2015. Based on his use of simple graphic and everyday images, Magritte is widely recognized as a major influence of the Pop Art movement.

viewpoint to one of an investor and increasingly to an entrepreneurial one from that of managers. They were unsure about the impact of the changing nature of the distribution in their industry and whether they would be able to keep up with their competitors.

A Major Juncture

With their board's help during the last three years, they had moved completely to an online store model of distribution and no longer needed a sales force. The board continued to encourage management to develop the new model of distribution to make it function easier and faster by, for instance, opening up additional distribution facilities. At board meetings, the siblings were increasingly feeling anxious that as the business had grown and so many others became dependent on it, the board was focusing more on strategy than investment returns for the owners.

After the most recent industry meeting, Peter reported to the board and shareholders that there was a potential game changer in their industry, which would impact the business and the family economy. Amazon was entering their industry and, with its reach, was threatening to become a major distributor of pharmaceutical goods. The siblings felt like the family business was at a major juncture—they needed to make a series of decisions that would impact their own futures and the future of the family's resources, as well as the opportunities and careers for the next generation.

The next generation was also monitoring the industry and had been watching the changes in other distribution areas. Both Peter and Jean each had a child who worked in the company. They were both concerned that the business would be challenged to provide the resources the next generation might need to learn.

Going Forward

Could the Vitals have prepared better? What do they need to do now? The three siblings could call together a meeting of their senior level management and develop a plan to begin to meet the immediate business problems. And, because they've used best practices, they could involve their board of directors to assist in strategy. But, changes like these also demand a much broader perspective, which focuses on the family's vision for their own economy.

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Family Meetings

For families who are increasingly faced with these circumstances, taking frequent measure of what they want in their future includes questioning assumptions regarding longevity, as well as loyalty. But, what's frequent measure? Having meetings of the family and shareholders at least annually will provide them with the chance to review and rewrite their overall family economic growth policies, answering such questions as:

> Put best practices in place before larger evolutionary changes are necessary.

- How long should we continue in our current line(s) of business?
- What would an exit look like for one or all of us?
- What are the markers we'll need to use to determine continuation in our endeavors?
- What ways can we expand our portfolio of options that will be interesting and rewarding?

Using these meetings as a chance for education as well as information gathering, increasing numbers of our clients are inviting experts to discuss the industry/(ies).

Some would say that the kind of meeting described above is what the board of directors should be doing with the company management. The board should also be examining the industry, but, generally, these kinds of meetings focus on how to make the current business survive in the market without a focus exclusively on the family/shareholder interests. The family and/or shareholders need an opportunity to focus on what's best for them, separate from what's also best for the company

and for the board, both of which may have different agendas or speak with different voices. Without the backdrop of what the family owners expect, the family's and/or shareholders' work may not be as robust as required.

Familial Connections

The Vitals have a foundation for these meetings because they're used to gathering as a unit to talk about the challenges they're facing or are likely to face. In addition, they have the kind of personal connections and understanding of one another that permits the discussion. These kinds of connections are built over time with a commitment of resources and effort. For the Vitals, the next generation got the opportunity to know one another when their larger family, the siblings and their children participated in summer family outings and activities.

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These familial connections also provided process, structure and ease in informing family and shareholders and the format for making rapid decisions. Family members were up to date on the status of the company and the other family holdings and could feel connected to the decisions facing them. While the next generation and other family members hadn't yet had many opportunities to feel comfortable with the board, the involvement of the three siblings ensured some smoothness of information sharing and decision making.

While I've seen the older generation in a number of families make decisions about the future of their legacy business without the input of the younger generation who feel connected to or may actually work in it, it's not a good idea. I generally believe that those who'll be living with the decision should participate in making it. The Vitals kickstarted that process by encouraging global citizenry and familial decision making.

For this family, and many others, the challenge of transition combines the generational transition as well as the transition in an industry or business model. At these moments of impending change, it's often easy to have thinking impacted by the strong emotional attachment to something that's belonged in the family for generations, as some would describe, "another sibling at the dinner table." It's necessary to make a lens shift moving from viewing the business as a family business, with an ownership mindset that sees family support as ongoing and singular by necessity to one in which the business is one part of the family holdings, its enterprise, which needs to evaluated in terms of its performance for the family, the employees and in the industry.

All families evolve, yet the rate of evolution can make it feel revolutionary at times. Shifting the lens over time from a mindset of owner as manager and operator to owner as investor and entrepreneur helps to put in place those policies and procedures that will help manage the emotional impact in and of decisonmaking. Put best practices in place before larger evolutionary changes are necessary. Having a mission, vision and strategic plan for the family provides a roadmap for such decision making. Taking seriously what family and/or shareholders need to know to make decisions about their future is of utmost importance.

The Vitals Take Action

Paul, Peter and Jean brought their families together for a family meeting. They asked an investment banker from one of their banks to provide an annual update on the state of the industry globally. They then looked at their position within that framework and whether they needed to modify their strategic plan from the previous several years. Because of their practices of transparency, openness and inclusion, they were able to discuss and then decide that they would vote on whether they would consider a buy/sell offer from one of the major competitors and began to develop some ideas to share with their board on how to proceed.