# Writing the Optimum Script For the Family and the Business

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There is a wonderful scene in the 1962 epic film *Lawrence of Arabia*. T.E. Lawrence (played by Peter O'Toole) suggests to Sherif Ali (played by Omar Sharif) that Lawrence's battle plan is to have his untrained and disorganized Bedouin troops race on camel across the Nefud Desert to surprise the enemy from behind at the coastal town of Aqaba (now Jordan) on the Red Sea. Sherif looks at Lawrence as though he is crazed, and preaches, "It is written" that no man may cross the Nefud. Lawrence pauses, turns to Sherif and says: "No. All that is 'written' is here," pointing to his temple.

We are reminded of this scene whenever the oft quoted statistic is shared at conferences that most family businesses meet their demise with the passing of the third generation. This fatalistic statistic has taken on such lore that the message is often heard as a type of divine mandate. However, just as Lawrence refused to have his fate written for him by others, so too, families in business have the ability to write their own scripts. And when written properly, the family enterprise can continue for generations, even long after there is no one with the family surname with the capability or interest to operate the business.

In order to create this continuity, a family business must dedicate itself to two simultaneous and mutually dependent needs. The first is providing for the growth of the business. The second is providing for the growth and nurturing of the broader family enterprise. Providing for one without the other will ultimately prove the statisticians correct.

Consider the case of Market Basket. Twenty years of family acrimony, two lengthy chapters of litigation, and the most intimate details of a family's drama played out in public. Yet the business has thrived. But what next, when 61 year-old CEO Arthur T. Demoulas has had enough? As the successor and son of Telemechus, and grandson of the founder Anathasios, Arthur is generation three, and it does not appear that there is a Demoulas heir-apparent on the horizon. Will the statisticians be proven correct? The outcome will depend in great part on the script Arthur wishes to write for his family moving forward.

Very often, family shareholder control groups reach a generational flexion point where the supply of family members interested in and/or capable of operating the family business expires. At such a juncture family control groups often sell the enterprises they control, believing that they have no alternative. Yet many do, and there are models of family businesses which demonstrate that the shoals of transition can be and have been navigated successfully, when there is no one left bearing the family name in operating roles.

**How does this happen?**

Most family business owners hope for a continual strengthening of the company's financial and market position so the business can support the lifestyle needs of family members from generation to generation. They also wish for family harmony.

But life gets in the way. Sometimes family members' short-term or individual needs can overwhelm the needs of the business. In other cases, family members disagree strongly on the strategic direction, or even on the day-to-day management of the business. These issues can seem insurmountable. As an unfortunate consequence — almost by default — many families end up in one of two places. Either, overwhelmed by what are perceived as the daunting challenges before them, they sell out; or, the family enterprise may devolve into a "lifestyle company," in which all decisions are driven by the requirement to provide for the family's lifestyle needs. Like selling out, this alternative is most often a terminal position.

What the family seeks, and what the business needs, are continuity of family control and leadership with adherence to core values, improved family harmony, and continuous reinvention of business strategies and tactics. To achieve these three core concurrent objectives, families must engage in a process of continuity planning, a holistic process encompassing at least seven independent, concurrent planning activities.

The process begins with the drafting of a blueprint articulating how the family will structure its ownership of the enterprise, govern and/or manage it, and distribute the benefits of ownership among family members. This effort involves communication among the family to identify and resolve causes of discord and to conduct financial, tax and estate planning, corporate and family governance, and corporate organizational development.

The *Continuity Plan* is not to be confused with the company's *Strategic Plan*. The former focuses on the broader interests of the family enterprise. The latter focuses on the family business itself.

**There are seven components to Continuity Planning:**

**1. Facilitation**. The process begins with the family that controls the enterprise. If the family is to grow the business, they will need to resolve existing and foreseeable family relationship issues which inevitably impact the business. This work is best facilitated by a coordinated team of professionals skilled and experienced in business and the '*business*' of family. This is not family therapy in the psychotherapy sense. However, it is often therapeutic.

**2. Assisted Communication: Recognizing the Real Goal.** Power, money and control must be allocated. Conflict about how they are allocated is the natural human condition, and wishing for the conflict to end will never resolve the need for this allocation to be determined in a mature, healthy, and collaborative manner. With professional assistance, most family shareholder groups can do so, once they understand that their common goal is *continuity*, not succession.

**3. Financial, Tax and Estate Planning.** An essential component of a successful Continuity Planning endeavor is a well-coordinated financial, tax and estate planning process which best protects the family assets but also allows for the smooth transition of ownership and management to the next generation. Sometimes *maximum achievable tax avoidance* and *prudent corporate governance* can be at odds. If the family truly desires continuity, however, the latter interest must prevail. Tax minimization is important, but it is best considered an outcome subject to modification in the service of the broader, non-financial goals of Continuity Planning.

**4. Corporate and Family Governance.** Operating entrepreneurs, even into second and third generations, often have had an "army of one" management style modeled for them by the previous generation of family entrepreneur. Accordingly, for many, the utility and manner of operation of a healthy, effective board is foreign. Moreover, even among entrepreneurs who have been exposed to proper board leadership, only a small subset understand the term "family governance," and fewer still have witnessed methods of family governance in action.

Family governance systems serve to keep the lines of communication open between active [employed by the operating company] and non-active family shareholders. Effective systems of family governance foster transparency by allowing the broader family, both active and non-active, to have a window into the operations of the family's business enterprise. Additionally, such systems also provide an opportunity for the family to communicate family values to those charged with the task of leadership of the family business; thus, ensuring the enduring print of the family on business operations and philosophy.

**5. Corporate Strategic Planning.** This plan defines what the enterprise and the family must do to succeed in growing the business. It is essential to note here the interplay between the continuity and strategic planning processes. Free cash flow generated by the family business can only be invested once: distributions constrain capital investment, and capital investment diminishes distributions to shareholders. Rarely, if ever, do the company's strategic planning needs and the controlling family's distribution needs get reviewed, debated and decided simultaneously by stakeholders. This is a profound error. Reconciling these capital demands is one primary duty of any family governance process.

**6. Corporate Organizational Development.** Organizational development plans ensure that the infrastructure of the company is in line with both, the strategic and continuity agendas. Sometimes in order to retain ownership and grow the enterprise, operating family members might have to face the reality that they are not equipped to take the company to its next level and must allow outside professionals to enter the system. Sometimes professional managers must recognize that family members active in governance have a clearer long-term vision that is congruent with the company's core values than any star business school graduate. It is the responsibility of the board of directors to mediate these interests.

**7. Financial Architecture.** The design of an appropriate strategy for funding both corporate strategic plans and controlling family/shareholder distribution needs is essential to allow the company to attract capital if the need arises. Whether capital is needed to fuel organic growth, for an acquisition, to meet current shareholder demands, or to fund retirement for the exiting generation, a financial strategy will provide the family with the comfort of having choices.

## Conclusion

Given the disruption and danger which exists in the world today, family business remains a symbol of what is best in America. Families with the vision and fortitude to engage in the continuity planning process described above may, as Lawrence suggested to Sherif, '*write*' their own reality, one in which the culture created by the family remains the foundation of the business enterprise, which will continue to care for the family for generations to come.

 