

FACULTY INSIGHTS

ALIGNING THE GENERATIONS: A Q&A ON FAMILY BUSINESS WITH JOHN DAVIS



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Recognized as one of the world's leading experts on family business and family wealth, John Davis is Senior Lecturer of Business Administration at Harvard Business School. He is also faculty chair of the Executive Education programs "Families in Business: From Generation to Generation" and "Families in Business—China." Davis recently shared his insights on the challenges facing today's family firms and how research can play a role in helping them succeed.

How did you first begin working with family businesses? What attracts you to this topic?

At a time when few people were studying family businesses, my mentor suggested this area for my HBS doctoral dissertation. My knowledge has grown over the past 33 years, in part through years of research and teaching, but also from advising family businesses all over the world—small and large, new and venerable. I find it very satisfying to help companies survive and prosper, and to help families navigate major transitions successfully.

I'm even more excited about the topic today than when I started. Many people don't realize that family companies are the mainstay of every economy in the world. They account for the lion's share of the GDP, employment, innovation, and so on. You see family businesses in virtually every industry, although it's likely they will survive longer in sectors that are less capital intensive. In steel, for example, you'll find family businesses that matured over a long period. But for a new biotech company, the need for a large infusion of capital at an early stage is not very conducive to family control.

What are some of the key challenges facing today's family business owners?

In addition to running the company day-to-day, most family businesses owners want to perpetuate the company in the hands of the family over generations. As a result, they will need to figure out how to pass on ownership and ensure that the family members involved are responsible, dedicated, and disciplined.

Having relatives in your business can create stability in the organization and culture because everyone knows person X is being groomed to take over; this also gives management a longer time horizon for planning and investing. Family members can be intensely loyal because they've grown up hearing about the company—but they can become confused about their roles and see themselves as having more authority than they should. Because it's more difficult to manage the performance of a relative, accountability problems can arise.

Chinese family businesses are legendary. Are their challenges different from those of family businesses in other countries?

Family businesses in China are now going through their first major generational transition since modern China emerged in the 1970s. Because of the discontinuities throughout the early and mid-20th century, these companies can't look to earlier generations for guidance.

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Most issues facing Chinese family businesses are the same ones we'd find anywhere in the world, but some are distinctive. Many Chinese families have been affected by the one-child policy. Having only one successor makes some things easier, but that one person might or might not be prepared to take on the challenge. At the same time, some Chinese families, like families in other parts of the world, have a strong bias toward a successor who is a son. Companies may be leaving half their team on the bench by not creating opportunities for women to contribute.

In response to some of these challenges, HBS will be offering the Executive Education program Families in Business—China for the first time later this year. This program will emphasize the core issues Chinese family companies are facing, and then draw on cases from China and around the world to explore how successful family businesses have addressed these challenges.

How can companies navigate the generational transition successfully?

All family businesses have to decide when the senior generation should step back and allow the junior generation to start running things. Part of this challenge is continuity—how do different generations work together to formulate a long-term strategy? Companies should realize this is not an easy task, as different generations tend to see the world differently. The older generation can't simply assert its authority, because it's important to develop skills and confidence in the next generation. You need to find ways to keep the dialogue open, and give the next generation opportunities to express their thoughts on running a company.

Members of the junior generation might start with a small project, and then manage a division, then a subsidiary. By using their skills and vision successfully, they may learn that the senior generation has helpful ideas. A strong dialogue helps you get all the ideas on the table and allows you to choose the best. In our programs, we help companies understand these issues clearly, apply best practices, and come out the other side even stronger than before the transition.

How can companies balance the needs of the business and the needs of the family?

First, you need to treat your business like a business and your family like a family. The needs of the two are both important and deserving of attention—but they are different.

Second, families that survive and prosper in business make a distinction between equal treatment and fair treatment. You can't expect everyone in the family to be equally prepared or interested in being an employee of the company or an owner in the business. Leaders should understand and appreciate the diversity in the family, and have some qualifications for different roles people can play—employee, owner, or board member. They are all important jobs in the family business system.

Third, you need to be able to talk. If a family stops talking about a certain issue, that's usually when it crops up in a counterproductive way. Many of the conversations families need to have—who gets a job, who's going to be the next leader, how to distribute ownership, how decisions get made, etc.—are going to be sensitive issues. It's natural to resist having these conversations, but it's also irresponsible. We have an adage that structure is your friend. Families can develop structures that will encourage these important conversations.

What are some of the goals of your Executive Education programs, Families in Business: Generation to Generation and Families in Business—China?

These programs are ultimately about helping families succeed. Success can be defined not only by improving the long-term health of the business but also by families having more satisfying lives and interactions.

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We want to help family teams avoid common pitfalls by improving their understanding of how you can best bring family members into the company, develop them, and work with them; how family members can best work together and be successful business partners; how and when you hand off authority to the next generation; how you make sure that the family is well prepared to lead the company going forward, and so forth. It comes down to developing a disciplined approach to governance for both the company and the family. At HBS, we help companies develop the skills they need in order to get different points of view on the table, sort them out, and negotiate as a family around these issues. When they know what to plan for, how to resolve differences, and how to structure the rules, policies, and decision-making apparatus, then they can keep families engaged and excited about running the business.

What family members would typically attend the programs?

It's extremely valuable to include a broad team that reflects different points of view, diverse roles, a mix of generations, and both men and women. We encourage teams of four to eight members—we've had as many as 12—which generates extraordinary dialogue in the classroom. Participants have ranged in age from 17 to 80. Some participants don't work in the business; some are owners but not managers. Some are employees but not yet owners. And some family members are neither owners nor managers. We also frequently have nonfamily executives, advisers, and board members attend the program with a family. Teams that have come with only family members have nearly all said that they wished they had brought nonfamily executives as well.

We get to know the families deeply, and they tell us that they not only learned things they really needed to learn, but also had important conversations with family members that they never thought they could have.

CONNECT WITH US

For more information, please contact our client service specialists at:

Executive Education Programs

Harvard Business School

Soldiers Field

Boston, Massachusetts 02163-9986 U.S.

Email: executive_education@hbs.edu

Telephone: 1-800-427-5577

(outside the U.S., dial +1-617-495-6555)

Fax: +1-617-495-6999

Connect with us via LinkedIn, Facebook, YouTube, and Twitter: www.exed.hbs.edu/connect/

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