Family business misconceptions that should be addressed - Martin Roll

The Gallen Family Business Index shows top family enterprises are growing faster than the global economy, with a 10% increase in revenue to $8.02 trillion in 2023. By Global Family Business & Family Officr expert, in an interview with David Ijaseun, discussed the impact of family business misconceptions on this growth. Roll advises Fortune 500 companies, Asian firms and global business families, and is the keynote speaker at BusinessDay's Family Business summit on October 12, 2023, themed "Built to Last: Building a Multi-Generational Business in an Age of Volatility" Excerpts:

About Martins Roll

Martin Roll is a seasoned Global Family Office & Family Business Expert who advises Fortune 500 companies, Asian firms, family-owned businesses, and family offices on strategy, transformation, leadership, and related topics. With over 25 years of experience in board and C-suite counselling, he has advised major companies globally and authored the best-seller "Asian Brand Strategy."

He serves on various global boards, mentors next-generation leaders, and is involved in academic roles at renowned institutions like INSEAD, Harvard, and CEIBS, focusing on family business and family office matters.

As a distinguished fellow and entrepreneur in residence at INSEAD, he mentors over 650 Next Generations and authors forthcoming management books. Martin Roll is a sought-after keynote speaker, conference moderator, and board/executive workshop facilitator, with a presence in the VC/PE space and a background that spans continents and includes an MBA from INSEAD.

WHAT common misconceptions about family businesses should be addressed?
Misconceptions about family businesses refer to false or inaccurate beliefs and ideas that people may hold regarding businesses that are owned and operated by families. and can significantly impact their ability to navigate volatile times.

Some of the common misconceptions I often come across globally and their potential effects on a family business's resilience include:

Size and significance: The myth that family businesses are small and insignificant can lead to neglect by policymakers and investors. In reality, many family businesses are major contributors to the economy, spanning various industries and sizes.

Tradition versus innovation: Assuming that family businesses prioritise tradition over innovation can deter professionals from joining and hinder adaptability. In truth, many family businesses actively innovate and adapt to stay competitive.

Professionalism: The misconception that family businesses are less professional can undermine trust with stakeholders. In reality, they often have well-defined governance structures and standards.

Resistance to change: Believing that family businesses are resistant to change can limit collaborations and partnerships, hindering adaptability during market shifts. Many family businesses actively seek opportunities for growth and innovation.

Conflict: While conflicts can arise in family businesses, effective governance and communication can manage them constructively. The belief that conflicts are insurmountable can weaken a business's resilience.

Family interests versus business performance: Assuming family interests take precedence can erode trust among non-family stakeholders. Successful family businesses balance family and business interests.

Challenging these myths involves showcasing the diversity and adaptability of family businesses and by doing so, they can enhance their reputation, attract talent and investments, and better position themselves to navigate volatility with resilience and agility.

Why do you think building multi-generational firms is important in today's business world?
Family firms or businesses account for a majority of global companies, they provide 70 percent of the global GDP and 60 percent of global employment. They are a key driver of global business and growth, so their sustained long-term value creation is important for the global economy as a whole.

Likewise, African family businesses have an important role to play in the economic rise and prosperity of the continent as they drive innovation, entrepreneurship and investments across sectors and industrial verticals.

How important are family offices in the global economy?
The family offices hold an estimated 8 trillion USD of assets under management (AUM) and have become an increasingly important source of global investments. They are rapidly becoming an important part of the global economy.

There are approximately 10,000 family offices in the world, and 50 percent of them have been created since 2005 representing thousands of business families. For example, the number of family offices in Singapore quadrupled between 2016 and 2018 according to the Monetary Authority of Singapore.

The next generation's role is also changing the future landscape of family offices. In the US alone, a significant part of the wealth will be passed on to the next generation before 2030.

Family offices are also playing an increasingly important role in the venture capital space, providing startups and scale-up companies with valuable capital, expertise, and strategic guidance. They provide significant contributions to global entrepreneurship and the emergence of innovation ecosystems.

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What challenges do multi-generational family businesses face in these uncertain times, and how can they overcome them?
Multi-generational family businesses face a unique set of challenges in uncertain times, and addressing them requires a combination of strategic planning, effective communication, and adaptability.

Identifying suitable family successors who possess the necessary skills and willingness to lead the business is a persistent challenge. Also, family dynamics can sometimes lead to conflicts over control and decision-making.

Nonetheless, I always advise clients to introduce professional management practices, hire external executives when necessary, and define roles and responsibilities clearly.

How crucial is effective leadership for the long-term sustainability of family-owned businesses?
The long-term success of family firms is not given, and it is not an easy task to succeed across multiple generations. There are many complexities involved when ownership, management and family roles tend to overlap with less clear distinctions between them.

However, I believe that effective leadership is paramount for the long-term sustainability of family-owned businesses. The leadership shapes business decision-making, maintains family cohesion, fosters innovation, and ensures a smooth transition of leadership from one generation to the next.

Without effective leadership, family businesses can face mismanagement, conflicts, stagnation, and financial instability but by approaching my recommendations for leadership roles based on dedication, adaptability, open communication and a focus on sustainability, future family business leaders are better equipped to guide their enterprises toward long-term success.

How can family offices maintain their growth and stability, especially during economic uncertainties?
A family office is a professional organisation or private office dedicated to managing the affairs and interests of business families including wealthy families and high-net-worth individuals.

By fostering a sense of responsibility and a commitment to the family's legacy, family offices contribute significantly to the business's stability and long-term success.

While generational power shifts can be hard to manage as family members often find it hard to step aside and relinquish control to the next generation, the long-term viability of family businesses requires each generation to have high levels of ambition and motivation to drive family unity.

What trends do you consider important for future family business success, despite the economic climate?
In the ever-evolving global economic climate, family businesses seeking long-term success must prioritise digital transformation, sustainability, and effective succession planning.

Embracing digital technologies, such as e-commerce and data analytics, is essential for competitiveness, while a commitment to sustainability practices and transparent ESG reporting can attract customers and investors.

Effective succession planning ensures a smooth transition of leadership to the next generation.

Additionally, staying agile, fostering innovation, and maintaining strong financial management are key strategies, along with adapting to market changes, embracing globalization, and building robust family governance structures.

Family dynamics can present unique challenges in family-owned businesses. What strategies do you recommend for an efficient family business structure?
First of all, business families should establish a transparent and fair governance structure that defines roles and decision-making processes, while also emphasizing the separation of family matters from business affairs. It is important to have a family constitution and shareholders agreements. This clarity sets the stage for professional conduct within the business.

Secondly, It is important to establish and maintain open communication and conflict resolution mechanisms. Business families should encourage open and honest communication among family members through regular meetings that address family and business matters, provide forums to discuss concerns and align with the company's vision. Additionally, having clear conflict resolution mechanisms helps address disputes swiftly and fairly.

Furthermore, cultivate a long-term vision for the business that transcends individual interests. It is often a good idea to consider the inclusion of non-family members as advisory board members or independent directors for impartial perspectives. These professionals can offer valuable insights and balance and help mitigate internal family conflicts and disputes.

I always advise my clients to follow this approach to help the business thrive while preserving the integrity of family dynamics.

Given today's global business landscape, how important is it for family-owned businesses to have a well-defined global strategy?
Firstly, a global strategy opens doors to new markets and customer segments, offering access to larger audiences and diversified revenue streams beyond local limitations.

Additionally, a global approach contributes to risk diversification, shielding the business from vulnerabilities associated with reliance on a single market. By spreading operations across multiple geographies, family businesses can mitigate economic downturns or regulatory changes in specific regions.

Moreover, operating globally fosters innovation and harnesses a broader talent pool, bringing diverse perspectives into the organization and enhancing creativity. It also yields economies of scale, reducing costs through consolidated functions and shared resources.

You have been a mentor for more than 650+ next-generation business family leaders. Can you explain more about that exciting role?
A Chinese proverb states that 'wealth shall not pass three generations'. The first generation builds wealth, the second manages it, and the third destroys it.

The challenges often arise when the next generation takes over from the original founder or previous generation. Building a multi-generational legacy for a family business is difficult, and the succession process is uniquely complex, sensitive, and sometimes overwhelming.

I have mentored more than 650+ Next Generation leaders from global family businesses and family offices in individual one-on-one sessions, and I mentor around 100+ Next Gens every year from all cultures.

This has provided me with unique insights into the critical issues for long-term family business success, the typical multi-generational tension points during succession, and how the Next Generations can contribute actively and play meaningful roles.

I typically become their closest, trusted advisor, and we get to discuss very personal matters, and sensitive information and take a holistic view of their life. Critical topics they can't easily discuss with others for several reasons.

It is something that I am extremely passionate about. Family business succession is a marathon. Not a sprint!

Using the story of Sam Bankman-Fried as an example, what key factors should family businesses consider when seeking investments in the crypto ecosystem, Web 3.0, NFTs, etc?
Family businesses considering investments in new tech like the crypto ecosystem, Web 3.0, and NFTs should begin with a strong foundation of education and understanding, ensuring they grasp the technology's nuances and potential impacts.

Risk assessment and management are crucial, as these technologies can be volatile so a clear risk tolerance strategy is essential.

Also engaging with relevant tech communities, conducting thorough due diligence, and hiring or training talent is critical. Clear communication, both internally and externally, as well as a focus on legal and tax considerations, will help family businesses navigate the complex world of emerging tech investments successfully.