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10 Things That Help Family Businesses Preserve Their Legacy

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From small shops to large multinational corporations, family-owned firms are the anchoring organization in our society. They are pervasive, expanding, and a core employer of human capital and producer of intellectual capital. Research led by the Family Enterprise USA (FEUSA) and others in 2021 found that the number of family businesses has increased from 24.2 million in 2003 to 32.4 million in 2021, representing 87% of the 37 million businesses in the U.S. Family firms also dominate world commerce; the largest 500 global family enterprises alone generate $8 trillion in revenue (E&Y, St. Gallen, 2023), with revenue growing at a healthy 10% rate.

It's clear that family businesses are critical to both commerce and society. When families work to create a strong family legacy, the business has an improved chance of future survival and continued benefits to the families and other stakeholders that depend on them. This article discusses what a legacy involves, and 10 areas that families must consider when planning and strengthening their legacy.

What is a Family Legacy?

A family legacy can be defined many ways, but it relates to the lasting impact, contributions, or achievements attributed by a firm or family enterprise, and through generations. Legacy can encompass a range of quantitative or qualitative elements:

Values and Beliefs -- Deep-rooted morals, ethics, or principles that guide family members' decisions and behaviors.

Stories and Traditions -- Narratives about ancestors, customs, or rituals that offer insights into the family's history and identity.

Material Assets -- This can include wealth, property, businesses, or other possessions handed down through generations.

Reputation -- A family's standing or influence within their community or society at large, often built over many years or even centuries.

Philanthropy -- Charitable contributions, foundations, or other altruistic endeavors established by the family to give back to the community or support certain causes.

Achievements and Accomplishments -- Recognized successes in various fields such as business, arts, science, politics, or other areas that become part of the family's history.

Cultural or Artistic Contributions -- Works of art, literature, music, or other cultural outputs that are attributed to family members and cherished by subsequent generations.

Educational Legacy -- Prioritizing and investing in education, resulting in a tradition of scholarly achievements, or even the establishment of educational institutions.

Responsibilities -- Duties or roles that are traditionally shouldered by the family, which could be due to their social standing, expertise, or historical events.

Heirlooms -- Tangible items such as jewelry, artifacts, letters, photographs, or other possessions passed down that hold significant sentimental value.

Ultimately, a legacy is defined over time, and is shaped by past, current, and future factors, including the cumulative decisions, beliefs, actions and contributions across generations.

Ensuring Legacy

Family enterprises, often spanning multiple generations, are cornerstones of many economies. Their longevity can be attributed to distinct strategies and values that are deeply rooted in familial ties and traditions. Such traditions vary from culture to culture, and are altered by each generation. Yet, legacy is a fundamental ethos and mission of many family firms, and regardless of where they operate, the principals of preserving it are similar.

Cultivating and preserving this legacy often becomes an essential goal for many families, as it provides a sense of identity, purpose, and continuity.Based on research published in some of the leading business journals, and discussions with industry experts, here is a useful roadmap showing 10 ways that family firms can preserve their business and ensure (or augment, at least) a legacy for future generations of family members, employees, communities, and other stakeholders:

1. Succession Planning

A forward-looking family business should initiate successors at an early age, acquainting them with business principles, ethics, and the family's entrepreneurial legacy. Use training and mentorship to ensure the next generation receives the right skills and guidance to take over leadership roles. Identify mentors early, and consider what those mentors can convey to the next generation, but in a way that does not take away their own ambitions and hopes for the family business.

2. Shared Values and Culture

Family enterprises may emphasize shared values, vision, and mission that transcend business objectives. This alignment strengthens business cohesion and drives unified decision-making.

Family members grow up in different generations and eras where the world around them often shapes very different worldviews. This is a generational effect that determines how the generations may view money differently, the values they hold, what they see as the components of a family legacy (financial wealth or social impact) and what to do with it (share wealth among the family, preserve it, or give back to the world).

3. Long-term Vision

Prioritize long-term growth and sustainability over short-term profits. Diversified revenue streams reduce the need for quick decisions or asset allocation compromise. Often, this may require more ambitious compensation mechanisms in today's competitive labor market; for example, employing recruiting experts may be highly valuable to sourcing, retaining, and nurturing top talent.

4. Stakeholder Engagement

Engaging with all relevant family members, even some of those not directly involved in the business, will foster greater unity and may ensure cohesive, collective decision-making. Outside voices – observers, lawyers, mentors, advisors – may indeed bring valuable fresh perspectives to the family firm and ownership. However, the board should maintain control.

5. Diversification

Family businesses should diversify their portfolios to manage risks and ensure a steady income flow regardless of economic cycles and sector volatility. Because inflation, interest rates, and the stock market are always changing, it may help to have a robust single core, profitable operating asset to anchor a single family office. A strong operating company (e.g., the family firm, or founding company) provides the family office with the potential for robust cash flows to leverage, distribute, and/or reinvest into a diversified portfolio.

6. Strong Leadership and Competent Management

Implement formal leadership structures (like a board of directors or family council), to maintain professionalism, enhance transparency, and expand knowledge. Proper leadership at the board level should include one or more independent directors or observers, and at least some degree of board independence to prevent certain internal family matters from affecting commercial business matters.

7. External Advisors

Engaging with talented external experts may provide less-biased perspectives, encourage innovation and ideation, and overcome internal biases. At a minimum, the family should employ qualified accounting and law firms; and call in other experts in insurance, security, trusts, estates, human resources, and organizational culture if they need it.

8. Adaptability

Emphasizing flexibility and adaptability ensures that the business remains relevant in changing market

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conditions. Family legacies include the family name and reputation, which inherently tie to the brands and products or services that bear the family name, and many families strive to protect it at all costs. While this is understandable, it may at times hinder the family's agility because it suppresses the appetite for risk.

9. Community Engagement and Charities

Family enterprises increasingly focus on local community development and corporate social responsibility, fostering goodwill and strengthening their brand. Indeed, legacy involves far more than financial wealth alone. What will the family be known for, and for what values? As family firms pass on to the second and third generations, community linkages, charities, and related non-profit activities are increasingly defining their legacies. And while a family office is by no means necessary to carry out philanthropic activities, as the Milken Institute (2021) points out, "operations can deploy various kinds of philanthropic investments on behalf of their clients." Given financial capital's versatility in philanthropy, a family office can facilitate an array of philanthropic directives, including outright gifts, grant making, advocacy, and impact investing, among other activities. Collectively, family firms today are building broader "philanthropic portfolio(s)" together with the support of their private bankers, consultants, and accounting experts.

Over time, the impact a family can make in its community locally, or in the world in general, makes a difference to the family, its legacy, and also its employees. While Milken notes that only 41 percent of family offices have a philanthropic "strategy in place," over 70% are engaged in philanthropy. Average contributions are also increasing as generations evolve. Family office donations remain, on average, highest in North America at $7.5 million (vs. $6 million in Europe, and $2.7 million in the Asia-Pacific region).

10. Clear Communication

Ensuring open channels of communication prevents misunderstandings and ensures family firm organizations, team members, and boards align with the goals of the business. Communication approaches may vary meaningfully based on generational context, cultural and geographic context, and the scale and culture of the family firms. Here are a few areas to consider when emphasizing open communication.

- *Build Trust and Cohesion:* Clear, fluid, open communication is the groundwork for trust among stakeholders.
- *Mitigate Conflicts:* Family businesses are vulnerable to personal conflicts spilling into the professional realm in the absence of communication.
- *Clarify Roles and Responsibilities:* In family firms, roles can sometimes be ambiguous due to overlapping personal and professional relationships.
- *Facilitate Decision Making:* Consistent and open dialogue ensures that all stakeholders are informed and can contribute to decision-making processes - crucial when matters intertwine.
- *Ensure Successful Succession:* Transitioning leadership across generations is a significant challenge. Open conversations are essential to ensure smooth successions.
- *Maintain Professionalism:* Casual conversations, at times, can dominate in a family business setting. Maintaining professional communication, especially in official matters, ensures business efficacy.
- *Enhance Adaptability:* Open communication can bridget the divides between tradition and innovation, keeping aware of market realities and shifts.
- *Involve Non-Family Members:* Communication with non-family employees ensures they feel involved, valued, and motivated, and understand the company's direction.
- *Encourage Feedback:* Ongoing feedback is essential. Encouraging family members and employees to voice opinions, ideas, criticisms, and suggestions is valuable.

A Role for Policymakers

Along with the steps that family firms take to ensure their legacy and longevity, policymakers around the world should also recognize their impact and make it easier for them to thrive over the generations.

The key debate should be around ***how*** do we support family businesses, and their respective legacies. As Joe Astrachan (former Editor of the Family Business Review and the Journal of Family Business Strategy) states about family firms and their legacies, "They can be proud of owning a family business and they can pass some of that pride onto their kids. It's in the nation's interest to reduce estate tax on them since it severely saps growth capital and perhaps, they should speak up

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about that with a collective voice."

Start Now

The longevity of family enterprises stems from a combination of robust business strategies, effective governance, collective passion, and deep-rooted family values.

Legacy can be achieved. Legacy is important. And legacy is time-sensitive: It cannot be postponed to a perpetual future task. Legacy should be part of everyday action. As Theodore Roosevelt said, "Do what you can, with what you have, where you are."

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