

MANAGING FOR THE LONG-TERM

In a world that seems increasingly focused on the benefits of super-quick results and earning a fast buck, families in business tend to look towards a different goal. There are more rewards to be gained from a solid long-term strategy than just continuity, writes **John Ward**



Long-term strategic perspective may be the family business's greatest advantage. There are countless stories of family companies successfully differentiating themselves by investing long-term in people, or in brand, R&D, new products, new markets, strategic partnerships, or in their culture.

Some examples of companies that have made a positive investment for the future include: IKEA's investment in Russia and Fidelity's investment in Japan; Mars' repositioning of the Snickers chocolate bar; SC Johnson's and WL Gore's people policies; Roche's and KWS's consistency in R&D; Hilti's and Bertelsmann's spending on company culture; and Murugappa Group's faithfulness to alliances.

Opportunities to benefit from patient capital and future focus seem greater than ever as the rest of the world becomes increasingly infected with short-term-itis. There are many profound forces placing a premium on fast results.

SHORT-TERM-ITIS

Foremost are the increasingly intense capital markets. More and more shares are held by traders, not investors. Incentives and personal wealth opportunities for analysts, money managers, investment bankers, and hedge funds lead to what Peter Drucker labeled, 'speculators' capitalism', or what others refer to as 'casino capitalism'.

But there's much more. CEO turnover in Europe has increased 300% in the last ten years. Flatter organisations prompt faster efforts for individual recognition. Outsourcing contracts are becoming commodities. Management incentives make earnings irresistible.

Even more, strategies and strategic advisors and the business media focus disproportionately on transitions – financial engineering, break-ups or large acquisitions. Internal rate of return and discounted cash flows are tools that serve short-term analysis well.

Our survey of 300 executives shows that these forces affect non-family firms much more than family firms. The last item concerning promoting the past shows how important this is to family firms – and will significantly affect long-term thinking.

EXECUTIVE SURVEY ON STRATEGIC PERSPECTIVE

| | Non-family firms | Family firms |
|--|------------------|--------------|
| I believe my company - under-invests in the future | 43% | 8% |
| Our planning horizons are getting shorter | 84% | 59% |
| If I see a near-term problem, I shift my focus to it at the detriment of long-term initiatives | 74% | 47% |
| The future will be better than the past | 68% | 90% |
| There's no doubt in my mind who will control this company in five years | 40% | 82% |
| In our company we actively promote the past | 21% | 75% |

NOT FOR EVERYONE

The future is not for everyone. Many will argue that the speed of change and increasing uncertainty make long-term strategy too risky, even senseless. Perhaps in some cases this is true. But an interesting insight from long-lasting family firms is that they find new opportunities and market positioning strategies that reward long-term thinking. Family firms pursue strategies based on brand, reputation, consistency, relationships, and loyalty – more so than non-family firms.

Besides, there's no incongruence between swift, agile actions in the present and patient, consistent investments for the future. Today's performance is, inevitably, the result of future-oriented decisions taken in the past. In all business, if continuity is relevant, some portion of its portfolio must follow a long-term strategy.

HOW TO MANAGE

If the future does matter, what can leadership do to assure long-term thinking? Methods for managing people, making decisions, allocating and measuring performance are proposed.



Going for long-term growth: Ikea have invested more in Russia than any other country; Mars' repositioning of the Snickers bar helped boost long-term sales.

As for everything else, management philosophy starts with who's hired, how they're trained, how they're evaluated, and how they're paid. People have an innate time orientation. Some think more about the past, some more about the present, and some more about the future. Few executives are conscious of this when they hire and assign roles. Putting future-oriented people on future oriented projects helps. So, too, counter-intuitively, does including some who have a past orientation. People with a past orientation are better predictors of the future and more realistic in risk analysis.

Long-term success is not speculation; it is a prudent and patient optimism for the future. Family firms have more respect for the past and optimism for the future.

Many family firms also build these perspectives into new employee orientation and management development programs. Family members tell the history and durable lessons from the past. They also speak of confidence and commitment to the future. They link the two by relating stories of how innovation and experimentation are rooted in the past, and are even more essential today.

Performance reviews and compensation policies tell the truth about company culture. Consider how much of performance reviews are about what the results were last year and what will be done this year with what results in twelve months. Shouldn't a meaningful percentage of the performance review reflect on what was learned from past years and what will be done for the long-term value of the company?

DECISION-MAKING

When managing for the future, companies will want to emphasize certain decision-making approaches. First, set a vision and objectives that are forward-thinking. For example, a company mission of continuity stretches people's perspective.

Though people are innately short-term animals, once they begin to imagine a longer-term horizon, it becomes easier to think even further into the future. For example, stretching people from 3 to 5 years is easier than stretching them from 12 months to 24 months.

Scenario planning helps. The more the company thinks about the future the more uncertainty it accepts. Using scenarios helps to imagine the future as well as protect the company from the inevitable, unexpected shocks.

Use options analysis, not just discounted cash flows. Design the analytical strategic questions on how to keep possibilities available rather than how to simply resolve a 'go' versus 'no-go' decision. It is also more valuable when the firm sees itself as a diverse collection of capabilities rather than a focused core competence. Family firms are inclined to want to develop these capabilities to strengthen long-term adaptability.

RESOURCE ALLOCATION

The more the future matters and the more possibilities a firm wants to create for the future, the more resources need to be invested opportunistically. Defining a strategic budget is perhaps, the most critical question for a firm's board of directors. Providing managers with 'serendipity (discretionary) capital' is also a tangible for the future. Of course, such discretion requires trust in the management team.

LONG-TERM SUCCESS IS NOT SPECULATION, BUT A PRUDENT AND PATIENT OPTIMISM FOR THE FUTURE

MEASUREMENT

Successful family businesses demonstrate that managing for the future is deliberate and rewarding. Perhaps the greatest need is trust within the organisation. To stretch the company effectively for the long-term requires comfort with uncertainty and acceptance of discretion by others who see the world differently than the CEO, even the board. Many individuals prefer the security of the here and now to such unpredictability and empowerment.

Family firms can dare to follow the different path. To do so, with confidence, demands two additional management ingredients: a mission of long-term continuity; and strong principles of conduct. These tend to come naturally to families in business. ■

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