

Succeeding at Succession

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It's hardly an exaggeration to consider the successful transition of ownership and leadership from one generation to the next as two family business miracles.

Consider, perhaps in an ideal world, a founder and an only daughter in business together. They get along well and own the business 50/50. When the founder retires, the daughter becomes chairman and CEO and spends the next decade buying out the founder's share. But of course, it's rarely that simple.

The 2nd generation typically includes multiple siblings. Often they all become owners, with at least part of that transfer placed into one or more trusts through gifting. All or some may be leaders in the business. While they are different people with a variety of interests, they generally have the bond that comes from growing up in the same household.

We call G3 the cousin generation and things become more complicated. There may be 10 or 20 family owners in the family enterprise that may own more than one business. Some owners are involved in family business leadership but many or even most are not. Cousins grow up in different households. They have different backgrounds, interests and goals.

Overcoming the Odds

Only about 3% of family businesses make it through the 4th generation where complexity can increase exponentially.

So, it's important to consider why and how some family businesses succeed for generations. With each succeeding generation, in an essential process of renewal, families agree on answers to important foundational questions:

- What is the purpose of our proactively engaging as an extended family?

- What is the purpose of staying together as family enterprise owners?
- To what extent, if any, will family members be engaged in business leadership?

It may be that extended family owners share beliefs about human nature, family enterprise culture and legacy, and directions for the fruitful investment of time and money. They may see themselves as stronger together — culturally, competitively and financially — than if they went their separate ways. Those are the kinds of things that can represent a strong purpose for proactively engaging extended family or staying together as family enterprise owners.

Active Owners

Ownership is an active endeavor whether or not it's combined with business leadership. Owners elect the board of directors as well as influence the selection of top leaders and the direction of the company. Ultimately owners decide who has an opportunity to buy or receive shares. Owners support business leadership with loyalty, engagement, motivation and compensation. They are actively involved and knowledgeable about business culture, values, people and plans, how plans are carried out and the effects for customers, employees and owners. Owners properly expect information, emotional value, leadership accountability, a competitive return for the risk undertaken and viable options for liquidity. But ownership is not the same as management.

Owners can't just walk into a business and tell people what to do. And ownership does not confer a right to be part of business leadership. NextGen members often work simple jobs in the family business beginning at young ages. They get to know people who work in the business and develop a front line view. Many family businesses encourage or even require NextGen

members out of school to work full time at another business to gain experience and earn promotion independently. If they later join the family business, the outside success boosts their self-confidence and credibility with family business employees. New ideas are better accepted when NextGen members have first-hand experience working elsewhere.

Leading for the Long Run

Successful family enterprises include involved families, but that doesn't necessarily mean there needs to be a family CEO. Many family businesses evolve in later generations to a non-family CEO for a business that the family owns. Whether family enterprises are led by family or non-family, a frequent competitive advantage over private-equity owned companies and public companies is longer leadership tenure and a longer range strategic view.

The creation of an independent board of advisors or board of directors is often described years after implementation as one of the best decisions ever made by a family business. Comprised of three or more risk-taking peers who meet formally three to five times a year and informally in-between, the outside board can be helpful with:

- Strategy
- Ownership and leadership succession
- New investment proposals
- Top leadership accountability and compensation

Beyond that, many families find that boards with independent directors help professionalize discussion of difficult topics.

Management gains value from preparing well-founded and ultimately concise materials for board books. It takes time and effort to distill information down to what's vitally important and relevant. The chairman (not necessarily the CEO) plays an important role in participatively developing board agendas that assume good preparation by everyone on the board and

focuses discussion on the key few, most important board-level issues.

The right timing for top business leadership transition will vary. But just as it's understandable that the shorter term focus of private equity and public market owners can result in lower, longer term returns compared to family-owned enterprises, it's also understandable that leadership can stay too long. For example, it's natural for successful top leaders to feel after a decade or two that gains should be consolidated and paid out to shareholders. The younger generation often feels the business should be investing and growing to remain successful in the face of changing markets and emerging competitors. The NowGen may have trouble letting go. The NextGen may have trouble grabbing on to the hard work and relentless responsibility of top leadership. That can be an inflexion point where non-family top leadership or selling operating assets are among the options considered.

There are many ways to be involved in family enterprises. Family collaboration can continue after a family business or a family business operating unit is sold. Families can invest together through a family office and a family foundation. They can share values and celebrate their common history through a family council and a family assembly. Or people or family units can decide to go their own way.

What's essential in each generation is to ask and answer: What is the purpose of our proactively engaging an extended family? Of staying together as family enterprise owners? To what extent, if any, will family members be engaged in business leadership? Business can be a means of achieving family purpose, but it is not the purpose itself.

How wonderful for communities, employees and families when a family business enterprise finds a way to succeed for generations and enjoy doing so in the process.

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