



The Changing of the Guard in the Family Business

By Bruce Hammer, Ph.D.

Why do Family Businesses Need Succession Planning?

Over 80% of all businesses worldwide are family owned. However, fewer than 30% of family firms survive into the second generation, and fewer than 10% into the third. Clearly, the continuity of a family business is at high risk.

By definition, a family business is one that some family members see as continuing past the founder's lifetime or ability to lead. If founders want to ensure that their creation survives them, and if members of the next generation want to maintain the business as a source of livelihood and family pride, planning for succession must be a priority. In fact, succession is at the core of what drives a family business, since it is the only way the business can survive into the next generation. Whether succession occurs in an orderly fashion following an owner's retirement, or unexpectedly following an owner's death, planning early and adequately is critical so that family members and the company are prepared for transfer of leadership.

The "changing of the guard" is a major life event in both the family and the business, occurring only once in a lifetime. Why not plan for it with the same degree of oversight and attention that one would give to any other important business venture, ensuring the best possible outcome and return on investment?

Unique Dynamics of Family Businesses

Succession planning in a family business is always about protecting both the integrity of the family, its individual members, and the integrity of the business that provides for the family. There's a lot more at stake than in planning for an ordinary business. Senior managers are often parents who sit with junior managers at both the leadership team table and the Thanksgiving table. Difficult choices made poorly – in an attempt to protect a family member at the expense of the business, or protect the business but ignore the impact on a family member – can destroy the family, the business, or both.

In all succession planning, it's important to understand the dynamics of the business and its principals, and the goals, needs, and agendas of the participants. In a family business, it's *crucial* to understand these dynamics. Here are some issues that are frequently encountered in family business succession:

- **Preparation for succession is often avoided, even to the detriment of the business.** Planning for one's own death, incapacitation, or retirement is a difficult psychological task, and easy to postpone. Too often, only the pressures of estate planning force the succession issues to the forefront. Years that could

have been dedicated to careful preparation of young family members are wasted.

- **Lack of clarity about the future diminishes dedication of employees and undermines productivity.** Potential successors, family members, and outside managers can wait only so long to know what's in store for them before their commitment to the business dwindles. Junior family members hoping for a spot in the family business may feel that they are spending half of their lives waiting, sometimes impatiently, for their turn at the helm. Family members who are close to – but not part of – the business may become embroiled in unresolved succession issues. Non-family managers important to the business may find the lack of clarity about the future too stressful to tolerate.
- **The family has to decide if ownership and employment opportunities are birthrights.** While family members may see the family business as their secure source of livelihood, the business needs to determine the rules for continued employment, promotion, and the holding of senior management positions. Will performance standards determine questions of succession? How will ownership be shared? Who will make what decisions? These are critical questions to be answered by the owners and the family.
- **A wide assortment of ownership and management models – including shared leadership - are available to family businesses.** Most family businesses begin with a single entrepreneurial founder and are governed by a sole controlling owner. The founding owner may send conflicting messages about ownership, giving equal share of the business to all the children while insisting that they replicate his or her model. On the other hand, the sibling partners may want to experiment with other models of shared leadership that can be very successful. To do this, they need to develop the ability to work together effectively and run the business in a model very different from the one they grew up in.

What Family Business Owners Can Do to Prepare

To accommodate the succession process, founding owners have a responsibility to:

- **Recognize when it's time to move on.** Founders – understandably – often have a hard time letting go of their traditional place in the business, even as they protest that they would love to move on. Their role in the family has been defined by their accomplishment, and they may have been seduced into believing that they are irreplaceable. However, staying too long at the helm can undermine the health of the business and jeopardize its future. Founders have to recognize that the business challenges of the future may be better faced by the next generation.
- **Protect and insure the continuance of the family business by embracing a succession management process early on.** At some point, founders have to

switch from building the business to empowering the next generation to take over. It's never too early to begin to communicate one's dreams to the next generation, to teach them to appreciate the relationship between family and business, and to prepare them to assume responsibilities. A lifetime of effort and pride in achievement can be undone in the final years if an owner does not embrace this final goal and can't accomplish a smooth hand-off.

- **Prepare potential successors for leadership.** Always keep an eye towards the future, providing opportunities for potential successors to acquire necessary skills in leadership, decision-making, strategic planning, and problem resolution – beyond simply “learning the business.” Allowing them to demonstrate their readiness to move up will allay the doubts of both the founders and the other employees well before the final transfer date.
- **Make difficult decisions about the relative leadership merits and the degree of trust they are willing to place in each of their children.** Many founders are challenged by having to choose between their children for leadership positions, or by not having leadership options within the immediate family. Recruiting senior managers outside the family may be the best decision, though one that is difficult to make.
- **Clarify future plans and choices with potential successors.** Giving a child a role in the business shouldn't be taken as a statement of future intent. Children may wake up in mid-life to discover that they traded their lives to their parent for a dream that never was theirs. On the other hand, working in the business doesn't always imply future commitment on the part of a child. Many owners cling to the belief that their resistive child will eventually come around, only to be left without a successor as the actual hand-off approaches.
- **Create forums to encourage communication and open discussion on topics of succession, business, and family issues.** Family businesses benefit greatly from governance structures such as a family council, a board of directors, and a shareholders assembly that represent family and business interests. The more these issues are spoken about in appropriate groups rather than in private one-on-one discussions, the more positive the outcome for both the business and the family.

Moving On – But Not Out

Finally, the next generation should have the benefit of the founder's mentorship after he or she has handed over the reins. It benefits both family and business when the founder is afforded a place of honor, possibly as Chairman of the board, head of the family council, or as a member of the senior management team. A founder who can continue to share valuable wisdom and experience while watching the company thrive into the next generation has reason to be very proud.