PETER LEACH

Succession management in family companies

Peter Leach Associates Ltd
The Family Business Management Series
Principles for owner-directors

Succession management in family companies

The Family Business Management Series

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Other titles in the **Family Business Management Series** include:

- Family Governance in Multi-Generational Family Businesses
- Getting the family to work together
- Pay, benefits and incentives in family companies
- The Family Business Rulebook
- The Role of Outsiders in Family Companies

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Preface

Family businesses have many things going for them - they tend to be flexible, reliable, proud, they can think long-term, have a strong culture and their people are committed. But they can also carry a daunting set of disadvantages - they can be rigid, inward-looking, unresponsive to change and sometimes swamped by emotional issues. It's a fascinating and complex mixture of advantages and disadvantages, costs and benefits, strengths and weaknesses.

Peter Leach & Partners serves the needs of family business people, helping them to find a path through this complexity and to balance the ambitions and needs of their business with those of their family. All family firms are different - and there are no easy answers - which is why this **Family Business Management Series** of jargon-free guides concentrates on principles, processes and procedures designed to help families recognise and address the most important issues and conflicts that tend to arise.

This third guide in the series - **Succession management in family companies** - focuses on the complex and emotion-laden issue of succession from one generation to the next (in terms of both leadership and ownership succession). A structured, well-planned and systematic approach to succession planning is needed in order to overcome all the psychological forces that favour doing nothing.

Also, regarding succession as simply a question of transferring a tried and tested way of running the business from one generation to the next is a dangerous mistake. As well as a change of personnel, the transition will involve a fundamental change of system and culture

The **Family Business Management Series** is an important initiative. It has been designed as a source of practical advice and guidance - pulling together some of the key research findings on family business management and the lessons of the our experience over 25 years of helping family businesses. We hope it will contribute to the efforts of these firms to achieve continuity, growth and prosperity in the years ahead.

Peter Leach
Peter Leach Association Ltd
peterleachassociates.com

Planning for the transition cannot start too early, and the whole process needs to be very carefully managed.

Chapter 1

Introduction

Doing nothing about succession is quite often disastrous for family companies. Yet many business owners, reluctant to give up control and preferring to live with ambiguity, decide that avoiding the issue is the best course for them.

Successfully transferring family businesses to the next generation raises complex and emotion-laden problems. Planning for the transition cannot start too early, and the whole process needs to be very carefully managed. But many entrepreneurs are reluctant to face up to the thought of giving up control, and succession is one of the main causes of divisions and tensions that can damage family life and undermine business performance.

As we saw in an earlier guide in this series (**Getting the family to work together**), in order to help avoid such divisions, families must set up clear channels for communication and develop a cohesive approach to the business. This means:

- Establishing open, direct and frequent communication between family members.
- Starting to unravel unresolved and unacknowledged conflicts.
- Assessing and planning the family's approach to the business.
- Clarifying and defining conclusions of the planning process in sufficient detail that they can be included in a written family constitution.

This guide explains why preparation and planning for succession are so important, helps family business managers analyse all the options, and provides practical guidelines on ensuring that any transition is accomplished as smoothly and as advantageously as possible.

A key theme on succession is that all family businesses are different and, in a given set of circumstances, there are rarely 'right' and 'wrong' answers or hard and fast rules. Instead, there are certain guiding principles, approaches and problem-solving techniques that need to be applied flexibly.

Fewer than 24 per cent of UK family businesses survive through to the second generation, and the main discussion in this guide focuses on the succession issues facing first generation business founders. Many first generation succession issues are equally applicable to transitions between later generations. However, transitions from the second generation onwards are recognised as involving some very distinct issues, so Chapter 6 ('The second generation and beyond') addresses the specific problems encountered by these older family businesses.

The succession paradox

Succession in terms of business leadership confronts the founder of a family business with a complex set of options. In broad terms these are:

1. Appoint a family member.
2. Appoint a caretaker manager.
3. Appoint a professional manager.
4. Exit via sale of the business, in whole or in part.
5. Exit via liquidating the business.
6. Do nothing.

Each option is distinctive and carries its own set of advantages, disadvantages, opportunities and threats. Also, the scope and impact of these will vary from one family business to another depending on, for example:

- the ability to attract family and non-family successors who are willing and have the skills to carry on the business
- the financial needs of the family (for example, whether cash needs to be extracted from the business to provide for the retirement of the senior generation)
- the personal and corporate taxation consequences of the different options
- the health and size of the business
- the external commercial and business environment at the time of succession.

If there is a commitment to retain direct control over the business, the first option of appointing a family member to succeed is seen as particularly attractive by many founders. Research by IMD has found that, if there's a suitable candidate, owners will choose a 'family solution' for several reasons:

- it gives their personal ideas and values a greater chance of survival
- they can feel their life's work is in good hands
- they don't lose contact with the business, and may even retain some influence over it
- they feel their sacrifices building up the business will have been worthwhile.

The appointment of a non-family successor, either to a permanent position or as a caretaker (options two and three), may become the strategy by default if no family successors are available, motivated or have the necessary skills for the task. Genetics do not guarantee that families can produce entrepreneurial business leaders generation after generation.

In terms of exit routes, some form of sale as a going concern (option four) is likely to recover most value from the business. Alternatives within this option include a trade sale (ie an outright sale of the whole business for cash), which may be particularly appealing where no suitable successors can be found, or a stock market flotation can be the best answer if external capital to finance growth is a priority. Similarly, a management buy-out financed by private equity funding (a sale by the founder to the existing management team, which may include family members) can offer a compromise between transferring the shares to the family and an outright trade sale.

Liquidation (option five) entails selling off all the company's assets, paying its outstanding debts and dismissing the workforce. It also involves substantial expenses and is unlikely to result in the best price being obtained.

Finally, the founder may simply avoid planning for succession by adopting the 'do nothing' approach (option six), and here lies the central paradox. Despite founders professing that a 'family solution' is their preferred course, in practice the dynastic dream is rarely achieved. Doing nothing is the least logical, the most costly, the most destructive of all the options, yet it is by far the most popular.

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Chapter 2

Resistance to succession planning

Complex forces are at work in family companies, favouring doing nothing about succession. These forces operate within the founder, the family and the business, and understanding them is the vital first step in successfully managing the transition process.

We're all mortal, so, in order to safeguard the continuity and vitality of the business, owners should regard planning for succession and making sure that it takes place as smoothly and efficiently as possible, as one of their key responsibilities. It's particularly strange, therefore, that despite the logic of this apparently natural transition (plus the compelling business and family reasons for planning succession) the 'do nothing' option is the one that founders most frequently adopt.

Case Note

In one family business the founder had a flair for practical innovation and a real love of the business, which he ran for 30 years. To customers, the workforce and himself, however, he was the company. He could not conceive of anyone else being able to run it in his place. Wanting something to pass on to his children, he looked into selling the company but could not find a good enough offer. Then in his 60s, and still very much in control, he fell ill unexpectedly and died soon after. There was no natural successor. His two daughters had little involvement in the business, and his two sons (the youngest just out of university) felt totally unprepared to take over. They had no experience of managing the company at that level, nor did they have a clear picture of how the business worked. The business was sold.

In general terms, the alternatives are quite stark. Succession may be an organised and gradual process, in which case a trained successor grows into the role under the owner's supervision and guidance; or, instead, it takes place abruptly and unexpectedly when the owner becomes ill or dies, in which case an unprepared family member can suddenly find the job forced upon them.

Failure to address succession can be put down to a combination of the entrepreneur's instinctive desire to keep control of his creation, as well as a natural aversion to planning. But the reasons are normally much more subtle and complex. Objections to the long-term planning of succession ('We don't have enough time to plan', 'Planning limits flexibility' and so on) are in many cases rationalisations employed to avoid deep-rooted anxieties and fears.

So, a great many factors conspire to reduce the likelihood of planning for succession, and an expert on organisational behaviour, Professor Ivan Lansberg (see the 'References' section), has categorised the range of deterrents into those connected with the founder, the family, the employees and the general environment in which the firm operates.

The founder

Fear of death

Few people find it easy to come to terms with their own mortality. This is often a particular problem for entrepreneurs, whose success is usually driven by a powerful ego and the conviction that they control their own destinies.

Reluctance to let go of control and power

Many owners become entrepreneurs precisely because of a strong need to acquire and exercise power over others. It's not surprising, therefore, that surrendering authority can be seen as a huge sacrifice.

Loss of identity

Owners often identify very strongly with the business, seeing it as a personal achievement that defines their place in the world. Letting go can therefore feel like a loss of personal effectiveness and can reawaken old identity issues that may be hard to cope with at this late stage in the owner's life.

Bias against planning

Successful management transitions are generally the result of a major planning exercise that begins many years before succession takes place. But owners tend to be 'doers' rather than planners, and they often perceive formal planning as bureaucratic and restrictive.

Inability to choose among children

Under business principles, the choice of a successor should be based on competence, while family values dictate that children should not be the subject of a selection process, but should be loved and treated equally. Family values tend to prevail in this conflict, with founders unwilling even to contemplate what they see as preferential treatment of one child at the expense of the others.

Fear of retirement

Owners of family firms are often, for all intents and purposes, in love with their businesses, and the thought of moving out of day-to-day work into 'the vacuum of retirement' can be seen as little short of a life-threatening event. The founder will probably have few outside interests that could be developed in retirement, and will therefore tend to focus on negative considerations like the expected loss of self-esteem and the risks of entrusting the business to an unproven successor.

Jealousy and rivalry

'Nobody can run this business as well as me' is symptomatic of the view many owners struggling with succession develop about their own importance. It also encapsulates the inevitable feelings of rivalry and jealousy that founders experience towards potential successors waiting to take over control of their beloved organisation. When founder and potential successor are father and son, this factor can become even more serious, introducing an extra psychological dimension of fear and hostility.

The family

Forces operating against succession planning are not confined to those involving the founder. The family provides another source of pressure that favours avoiding the issue.

The spouse's resistance to change

The founder's spouse is frequently reluctant to welcome and encourage a partner's move into retirement. He or she, too, may not relish the prospect of giving up many key roles played in and around the family firm. As well as direct involvement in the business, the company will probably have become a centre of activity and a significant component of the spouse's social identity.

Family taboos

The cultural norms that govern family behaviour discourage discussion between parents and children about the family's future after the parents die. This is particularly so in relation to financial matters. Succession planning, of course, involves open discussion of precisely these topics and is thus usually avoided, even in the most well-adjusted families.

Fear of parental death

Children typically have deep-rooted psychological worries about abandonment and separation, and such feelings can be too painful to permit participation in discussions about succession.

Employee and environmental factors

Job insecurity

Employees can present obstacles to succession, even though the prosperity and continuity of the business are in their best interests. For many employees (especially senior managers) their close personal relationship with the founder constitutes the most important advantage of working for the family firm. Replacement of the founder with a newcomer, viewed as inexperienced and likely to make sweeping changes, is seen by employees as a threat to their job satisfaction and security.

External worries about change

Outside the firm, important customers are also likely to prove resistant to change, reluctant to trust a new face. Similarly, the unwillingness of other entrepreneurs – the owner's peer group – to deal with their own succession, acts to reinforce the founder's bias against planned management transition. Owners have to face up to a range of complex and interrelated processes – psychological, emotional, individual, organisational and external – that are all operating against any kind of planned effort to manage succession. It's hardly surprising, therefore, that so few family business founders are willing and able to organise effective succession planning, concentrating instead on coming up with one delaying tactic after another designed to put off the day when they'll eventually have to grapple with the issue.

Fear of parental death

Children typically have deep-rooted psychological worries about abandonment and separation, and such feelings can be too painful to permit participation in discussions about succession.

Developing a full understanding of the transition process and its effect upon family members is critical, and this also takes a long time.

Chapter 3

Managing the transition

Succession planning, done well, takes a long time, and the most successful transitions result from establishing a partnership process between the generations.

Once it's decided that the long-term objective is to keep the business in the family, a succession plan must be put in place. Managing the succession process in family businesses tends to be successful when it results from establishing a well-planned partnership with the next generation (see Exhibit 3.1). Both founder and next generation should view succession not as an event, but rather as a process to be planned.

Exhibit 3.1 - A succession checklist

1. Start planning early.
2. Encourage inter-generational teamwork.
3. Develop a written succession plan.
4. Involve the family and colleagues.
5. Take advantage of outside help.
6. Establish a training process.
7. Plan for retirement.
8. Make retirement timely and unequivocal.

Start planning early

Often the first real thoughts about succession are prompted by the death or ill health of the chairman or managing director. As well as the potential for serious damage to the business, this will be a time when the family is least able to give the matter proper consideration.

Insufficient planning for the death of the majority shareholder may expose the family to major cash flow problems in the form of tax liabilities but no liquid assets with which to settle them. In other cases, the succession proceeds in an atmosphere of mutual acrimony and guilt as family members, unable to understand or control the process they are caught up in, search round for somewhere to place the blame.

Case Note:
At one company the founder had made no concrete plans for succession, although he had made provision for possible tax liabilities following his departure. His sons (who had left school aged 16) had become increasingly involved in the business, albeit in a fairly haphazard fashion. Then one day, after an argument with his eldest son over a business decision, the founder declared himself fed up with running the company and walked out leaving the sons to make the best of things on their own. This left the firm in a state of chaos for some time after, and was the source of much family friction. The brothers felt ill-equipped to manage the enterprise of which they found themselves in charge.

The succession process should be carefully planned and take place over time. Ideally, the owner's transition from MD to chairman of the board or full retirement is so gradual as to be imperceptible. Rather than being abruptly ousted from the top job, the founder gradually separates his or her identity from that of the business and becomes accustomed to a new role. At the same time, successors should grow into their roles, earning the respect and confidence of the founder.

Developing a full understanding of the transition process and its effect upon family members is critical, and this also takes a long time. The various options need to be assessed, the family must be given adequate opportunity to reflect on the implications of decisions, and a gradual succession timetable needs to be structured and agreed.

Encourage inter-generational teamwork

It's vital to establish and foster inter-generational teamwork if the build-up to the transition, the transition itself and what happens afterwards are to be as trouble-free as possible.

Family businesses tend to become more complex with the passing of time, and especially with the transition from one generation to the next. With succeeding generations, the intensity of emotional factors that surround the family's involvement in the business increases. Bits of 'emotional baggage' (unresolved issues left over from the previous generation) don't disappear – they loom ever larger. For example:

- If one brother feels he's been 'done down' by another brother, and this grievance is not settled before the brothers die, then when the next generation succeeds the grudge will live on and fester.
- If a father hasn't chosen between two children because he does not want to upset anybody, then after he has left the scene they will fight it out and try to resolve a critical issue that could have been sorted out more effectively by the father when he was around.

Establishing inter-generational teamwork implies the generations recognising these sorts of problems, talking about them, and trying to find solutions. Assuming such issues will just be forgotten about over time can be a fundamental mistake – the problems come back later on, by which time they are generally more complicated and more difficult to resolve.

Develop a written succession plan

An earlier guide in this series (**Getting the family to work together**) stressed the importance for families to establishing formal mechanisms, rules and procedures as a way of helping them to avoid (or at least manage) tensions and divisions which, if left unchecked, interfere with the effective functioning of the business. It was shown that setting up a family council and drawing up a written family constitution (recording the family's agreed policies on the business and other issues) tends to provide a structural framework that helps family members focus on the important issues, progress through problems and find ways of working with each other.

For exactly the same reasons, developing a written succession plan that incorporates a step-by-step approach to dealing with the practical and psychological aspects of the transition process will prove extremely valuable. The thought required to formulate and write down the stages of the process will be useful in itself, and the existence of a formal document that everybody is aware of, and has been consulted about, will significantly reduce the potential for doubts and misunderstandings. As a minimum, the plan should cover:

- A leadership and skills development programme for potential successors. This would include outside work experience and a preliminary outline of a planned career path within the business (see Chapter 5).

- The process for choosing a successor – ie timing of the decision, the business criteria to be employed, whether the decision is delegated to an independent board or a committee of family members, plus how the decision is to be confirmed and communicated to the family, the company and outside stakeholders (like creditors and key customers).
- A detailed timetable that plots each phase of the founder's reduced participation in the business.
- A timetable mapping out the chosen successor's expanding role and responsibilities.
- The plan for organisational succession, covering the structure and functioning of the management team after the transition – eg new career paths for key managers, future family participation and so on.

When the plan is complete, communicate it (or at least its principal conclusions) to the family, the employees, and to outsiders who have an interest in the continuity and success of the business, such as the bank manager, customers and suppliers. Tangible evidence of a serious approach to the problems of succession will impress and reassure them and, at the same time, will give everyone the opportunity to plan for a smooth transition.

Involve everyone and obtain outside help

It's a good idea to appoint a succession working party, consisting of the owner, selected family members, non-executive directors and key trusted employees. This group is responsible for developing the succession plan and monitoring its implementation. The latter is important in ensuring that the plan is accomplishing the desired organisational results, including generating individual psychological responses that will be required to sustain the transition.

It is the founder's responsibility to initiate and lead the succession planning process, but the working party gives everyone most directly concerned an opportunity to discuss their thoughts and fears openly. By providing a forum for debate, it should help to reduce negative emotional reaction within the family.

While input from the family and employees about their concerns, interests and priorities is very important, the fact is that only the founder fully understands the complex emotional and managerial issues associated with succession planning. Because of this, founders should try to involve as many people as possible in the process – absolutely anyone, in fact, who may be able to offer useful advice and support during this critical phase. For example:

- A strong, independent board of directors is an invaluable source of expertise and objectivity during succession planning.
- Family business consultants and other professional advisers who have a good understanding of the firm are often skilled in dealing with these issues.
- Peer groups – ie business colleagues who are themselves facing, or who have already been through the succession transition – will almost certainly be helpful. Sharing and comparing experiences can serve as a much-needed source of ideas, strategies and support.

Establish a training process

Many owners assume that their children will want to enter the family business, or they put pressure on them to do so. Inadequate preparation and training, or undue pressure, condemns many innocent children to unhappy careers that are neither satisfying for them nor productive for the business. Preparing successors for leadership is discussed in Chapter 5.

Plan for retirement

It's important that founders prepare themselves emotionally and financially for a new phase of their lives that does not revolve exclusively around the family business.

Founders need to take advice on financial preparations. At the emotional level, experts are more or less unanimous that this phase is most likely to be successfully negotiated if business owners are retiring to a new life of interesting activities, rather than from their old one, which implies that their useful and productive days are over. Founders must think, therefore, about how best to use their new-found leisure time, and also plan their future work activities. Many people these days set out on a second career once they have retired from their first.

Do not, however, overlook the fact that founders remain a vital resource to the family firm, even though they have passed on day-to-day operational responsibility to their successors. Many founders, as part of their succession plan, assume new, productive roles in the company, taking on, for example, long-term strategic planning, new product development or special projects. The founder can also play a vital role in fostering management continuity, connecting the new managers with individuals and organisations that may be critically important to the future success and prosperity of the company.

Decide when to retire and stick to it

Unfortunately, founders do not always know when to step down. Succession is much more likely to proceed smoothly if founders retire at a time when they are still in full command of their abilities and able to provide guidance to senior managers when they seek it. Life-cycle analysts have highlighted the difficulties that can occur when founders hold on to their positions beyond about age 65. They tend to become 'out of phase' with their successors who themselves are likely to be in their late-30s or 40s and impatient for independence, recognition and opportunities for leadership.

In addition, having set a definite date for leaving, the founder should stick to it. A public commitment in the form of a precise timetable for the founder's departure included in a written succession plan will help to reduce the possibilities for confusion or delay. This does not mean that founders must cease to play any role in the business, but it does mean that their new role has been well defined and does not encompass participation in day-to-day aspects of the business.

Viewing succession as a cloning process is likely to prove a mistake.

Chapter 4

Selecting the right successor

Family business owners should resist the temptation to favour possible successors just because they are in their own image and likeness. Viewing succession as a cloning process is likely to prove a mistake. In evaluating candidates, important questions to consider include:

- Are they committed to the company's mission?
- Do they have the ability to move the business forward?
- Can they think independently and exercise good judgement?
- Do they have the leadership talents required to take hard decisions and to motivate others?

A fundamental issue is who is the right person to be asking these questions and making the choice? A number of experts have concluded that family firm chairmen and MDs should not be responsible for the selection of their own successor. The business administration authority, Harry Levinson, has summarised the argument well:

"Each of us in his own unconscious way seeks omnipotence and immortality. To varying degrees, each wants his achievements to stand as an enduring monument to himself; each wants to demonstrate that he was necessary to his organisation, that it cannot do without him. This pressure is particularly strong for entrepreneurs and those who hold their positions for long periods of time. As a result, although executives consciously seek to perpetuate their organisations through the wise choice of successors, unconsciously they also seek to demonstrate that no one can succeed them.

To avoid these dangers, the advice and assistance of a strong board of directors is invaluable, both in assessing the capabilities of family members in the business and any non-family candidates, and in making the final decision. In particular, an experienced and independent non-executive director may be able to offer a perspective free of the dynamics in which the chairman, MD and other members of the firm and family are caught up. Outside professional advisers can also be consulted as an extra source of objectivity."

Who to choose

Regardless of who is making the choice, consideration of succession candidates from within the family raises some difficult issues.

The logical successor

Sometimes the choice is straightforward. There may be a single successor who is both capable and committed and who, during the succession planning process, grows naturally into the role. But some families define 'logical' to mean that the eldest son is automatically the first choice. Although this eliminates uncertainty and reduces the likelihood of rivalry among the children, such a rule may result in the appointment of a leader who is less qualified than other candidates.

Choosing from among 'equals'

Family members should be recruited into the firm only if, on business grounds, they possess the skills needed to carry out the job effectively. Exactly the same principle should apply to the recruitment of a new MD, even if this offends the family norm that all children must be treated equally.

There are cases, however, where family businesses actually find themselves without a leader because owners prove unable, or unwilling, to face up to the difficult decision of choosing a successor from among their children. Others sometimes seek a compromise involving the rotation of management responsibility among the children. By the time that the family member gets to grips with this difficult and central job, their term ends and it's the turn of another person to take over.

A further group advocates shared management under which there's no 'boss' in the accepted sense, but a partnership among the owners with decisions taken jointly. There are circumstances in which this can work, especially where the business readily divides into clearly defined and largely autonomous segments, but it requires a high degree of trust and harmony among the owners. It helps if they have relatively equal abilities, plus an unusually strong willingness to compromise and to accept consensus decision making. Even then, owners should agree on a method of resolving deadlock.

Don't overlook daughters – or in laws

Daughters often possess greater qualifications for the MD's job, demonstrated by strong early career achievement. The absence of the potentially troublesome father–son relationship can smooth a daughter's rise to power.

The involvement of committed sons-in-law or daughters-in-law can provide an additional pool of potential next-generation leaders and bring new dimensions of strength to the family business. However, the increasing incidence of divorce in the United Kingdom can have a severe impact when it involves an in-law who is in a key management position. Following separation some families are able to draw a distinction between family and business considerations, and the in-law continues to work in the business. Others find this untenable and the in-law has to leave. Families can anticipate such problems through pre-nuptial agreements that could provide for an immediate buy-back of the firm's shares held by the in-law and the family member in the event of divorce.

Ultimately, the risks of a potential marriage breakdown have to be weighed against the benefits an in-law can bring to the business.

More than one family unit

Succession from the second generation onwards (see Chapter 6) generally involves more than one family unit. Usually, the number of potential successors is larger, and the choice becomes more difficult. As participation in the business grows, so too does the potential for conflict, particularly when share ownership is equal between the family units.

Hiring professional managers to run the business provides a clear solution to the co-ownership problem. But if the families want to remain actively involved in the business the owners need to develop strict policies to govern its future management. The creation of a voting trust is one possibility: even though shares in the company are spread among the various family units, voting control is centralised in the hands of those responsible for the management of the business.

What if no one fits the bill?

Although founders may have a huge amount of emotional capital invested in the business, and wish to see it continued by their children, it may be self-defeating to force a family management transition if the right circumstances do not exist. Perhaps none of the children has the ability needed to run a business, or maybe rivalry between them is so extreme that none would accept one of the others as leader.

If, after an honest assessment, the conclusion is that there's little chance of a successful management transition to the next generation, founders should begin to look for some alternatives.

Dividing the business

If sibling rivalry effectively precludes the children proceeding together, it may be worth considering a division of the company. Assuming the business can be structured to allow a demerger, the children take over different parts which then develop independently. But companies should not take this route purely for family reasons – it must also make good business sense.

Selling the company

When a transition within the family is not achievable, a founder may be better off selling the business rather than forcing the succession issue. The decision to sell is likely to be traumatic and, compared with a transfer of the firm to the next generation, may carry some adverse tax consequences.

It's important to try and disentangle the emotional considerations from the financial ones. A useful idea for business owners who have ruled out the possibility of a sale is to imagine they receive an approach from a possible buyer who says, 'If I gave you a cheque this afternoon for £10m representing the value of your business, would you put the money into a building society, or property, or the stock market – or would you buy a business like yours?' The response to the last possibility is likely to be, 'No'. The question is rarely posed in such stark terms, but it should be. A sale may be the best option in order to preserve both the owner's financial security and harmony in the family.

Appointing non-family managers

Many families decide to hire outside professional managers if it's not feasible for a family member to take over. The major issue here is one of trust – will the family's principal store of wealth be safe in the hands of an outsider? On the other hand, family members in the business, aware of the problems they'd have in filling the role, often prefer reporting to a respected professional manager.

The appointment of outside managers becomes a particularly relevant consideration once the family business reaches the third generation and beyond. By this stage there can be dozens of family members with a stake in the firm and introducing professional management often represents the only realistic solution to the succession issue.

Sometimes families try to avoid having to resort to outside managers by appointing as MD someone who has worked for the family for years, and who is seen as part of it. This can be a high risk strategy. Such a manager will have had little opportunity to develop the required leadership skills, and is frequently under considerable pressure from the family to adopt a stewardship role. In these circumstances the business can start to drift in the absence of a strong leader capable of driving the firm forward.

Employing a 'bridge'

If the obstacles to family succession are temporary (eg when the successors have not yet acquired the experience to take over from the founder), a caretaker MD can be appointed to run the firm until the transition within the family eventually takes place. Referred to as a 'bridge', the individual is usually a talented professional manager who will expect to be well paid to compensate for the short-term and essential nature of his or her task.

It's not uncommon for such a caretaker also to act as a mentor to the succeeding generation. The young generation may find it easier to take advice from this professional manager than from a parent, and the 'bridge' takes on the role of overseeing their career development plan to prepare them for a future position of leadership in the business.

Many owners assume that their children will want to enter the family business, or they put pressure on them to do so.

Chapter 5

Preparing a successor

Don't pressurise the next generation to join the family business. Encourage them to pursue alternative careers, then, if they do decide to join, provide them with a robust and relevant training programme.

Succession should involve a well-planned partnership with the next generation, and founders and parents must take responsibility particularly in the following areas:

- for ensuring their children receive a sound, broadly based education
- that they are well nurtured and develop self-esteem
- that they learn about money, business and investment
- that they have extended outside work experience before joining the family business
- that if they do join, that there is a training programme for them which is both relevant and worthwhile.

To join or not to join?

Many owners assume that their children will want to enter the family business, or they put pressure on them to do so.

While the children are growing up, it's important to try and keep an open mind about this possibility, and to remember that their perception of the business is being formed mainly on the basis of what you tell them about it. If they regularly hear complaints about the problems of running the firm then it's likely they'll shy away from the prospect of joining and choose other careers.

But, similarly, if the children are conditioned from birth to believe that the business represents a golden inheritance and that perpetuating it is their destiny, then they'll tend to view joining the firm either as an easy option or as a weighty obligation, rather than as an opportunity. Entirely insulating the children from the business is probably not achievable because this may convey an unintended message that there will never be the possibility of pursuing a career in the family firm.

Exhibit 5.1 - Joining the business – the next generation's perspective

- What are the reasons behind my decision?
- Does the business offer the sort of career I want?
- Will it be possible for me to live up to the senior generation's expectations?
- Will I be able to establish my own independence and freedom to act, or will I always be operating in the shadow of the previous generation?
- How will I get along with the senior generation when we have to work closely together every day?
- Can I establish working relationships with my siblings or cousins, or will there be too much arguing and conflict?
- Will the employees respect me?

Senior generation members should try to find a balance that enables their successors to share their dream, making sure excessive pressure is not put on them to feel that they have no choice but to be part of it. Telling them about the exciting and challenging aspects of running the business as well as the negative considerations can help. Letting them get first-hand experience of the firm, perhaps working in it during school and university holidays, may also assist. But always balance any enthusiasm for their entry to the firm by making it clear that the family will be understanding and supportive should they choose other careers.

At the end of the day, their decision to join should be freely made and based on a thorough understanding of the privileges and responsibilities that come with the job, and an acceptance of the hard work and commitment required. Inadequate preparation and training, or undue pressure, condemns innocent young people to unhappy careers that are neither satisfying for them nor productive for the business.

After school

Once the children have completed their education and become young adults, encourage them to pursue other careers and work opportunities before joining the family company. The most accomplished successor generation managers of family firms have generally spent much of their early working lives outside the family business.

Advantages of commencing a career outside the family firm

Self-seteem and confidence

Succeeding at something, independently and unsheltered by the family, helps to build self-esteem and confidence. If the children do decide to join the family firm, external experience will give them an extra perspective on their role, helping them to establish their own identity and to succeed on their own merits. If at a later stage they choose to leave the firm, they will have the comfort of knowing they've already proved they can compete and win through in a world in which the qualifications extend beyond having the right surname.

Wider business experience

Learning how other industries and firms work will almost certainly benefit succession candidates throughout their business careers. They could find work in a larger, more professionally managed company than their family's, in the same industry. Equally valuable would be working in another industry, acquiring general business and management skills. Moving straight from full-time education into the family business risks the successor becoming introverted, whereas outside experience is likely to generate a fund of ideas to bring back to the family firm, while also helping to make the person more open-minded and flexible.

Credibility with non-family employees

A son or daughter who leaves school or university and straight away acquires a senior position in the family business is likely to be the cause of strong resentment among non-family employees. This can manifest itself as a loss of respect not only for the individual concerned but also for the whole family. Feelings can run very high in this situation and key non-family managers may simply walk out, placing the survival of the business in jeopardy. Potential successors who join the family business with some serious outside work experience under their belts will improve their credibility, and will have a head start in terms of earning the respect and support of non-family employees.

Exhibit 5.1 - Early days in the business - the next generation's perspective

- Draw up a training plan. Develop a structured plan and try to allocate a period for working in every important department so as to pick up a thorough grounding.
- Make sure training is worthwhile. Time spent on manual and repetitive jobs just for the sake of doing everything is usually not very productive. Try to ensure that training positions progress from one to another, and that they represent a meaningful learning experience in the context of your career objectives.
- Work at establishing your own identity. Everyone working in, and doing business with the firm will know you are 'family', so you'll have to make special efforts to show you're prepared to succeed or fail on your own merits. You don't want privileges that serve to remind everyone of your special position.
- Gain the respect of employees. When you first join, your credibility with non-family employees will probably be minimal. They know why you got the job, and acceptance as a leader will have to be earned. Already having outside work experience and a track record will help, but you'll still need to avoid special treatment and show yourself keen to learn and to work hard.
- Tread carefully. There is bound to be resistance to the bright newcomer who wants to change everything around. So even if operational procedures and systems do need professionalising, try not to make the issue into a crusade. Instead, be patient, take a step-by-step approach and build up your credibility.
- Beware of sibling rivalry. If you have brothers or sisters who are also working in the business, remember that some rivalry is normal, but try to prevent these feelings becoming a destructive force. This requires a determination to manage sibling rivalry rather than being managed by it. Try to agree on a code of

behaviour that recognises that the welfare of the business is paramount, and that establishes procedures for resolving differences.

- Prepare for succession. Your role in the succession process centres on being thoroughly prepared, and doing everything you can to ensure the transition takes place smoothly. You'll need to demonstrate above-average ability and commitment in order to earn respect. The ideal result will be that you gradually take on more and more responsibility, so that assuming leadership, when the time comes, represents a natural progression that comes as no surprise to anyone. If, instead of you, another family member or an outsider is chosen as successor, you must either provide the individual with your unequivocal support, or be prepared to seek other career opportunities outside the family business.

In-house training

The typical route to the top for the heir apparent in many traditional family firms involves a series of positions within the firm, sometimes beginning at the lowest level. While learning every job on the way up can have a value in particular businesses, the development of managerial talent is a long process and care should be taken not to waste time on direct experience of menial tasks simply for its own sake. Overall, the important point is to make sure that all training is worthwhile and appropriate in relation to the career development strategy set out in the written succession plan (see Chapter 3).

Also, be aware that because of the emotional involvement, parents can be poor teachers, so help young family members joining the firm to establish a special relationship with a non-family mentor figure within the organisation. A key manager who has been with the firm for a long time and who knows the business inside out will often be available to take on this dual role of teacher and friend. For a young person joining a family business, a mentor relationship can operate largely free from all the emotional aspects of the family connection, and is almost always valuable.

Concerning the next generation's entry to the business, key conclusions are:

- **Define their roles.** Conflict and uncertainty over their functions in the business can be a major source of tension. Consider separating responsibilities, either on the basis of operational criteria (eg production and marketing) or, if the business lends itself to it, geographically.
- **Set objectives and provide feedback.** Employees, including young family members, need to know what is expected in their jobs. They also need regular feedback about their performance, including recognition for achievements and constructive advice on aspects of their work that need improving.
- **Pay children the going rate.** In another guide in this series **(Pay, benefits and incentives in family companies)** we saw that many owners pay their children either far below or far above their true worth. But experience has shown that the fairest and healthiest remuneration system is to pay family members the market rate for their jobs, as though they were working for another firm. Other, less objective systems generally lead to resentment and conflict.

Succession is not just a question of transferring a tried and tested system for running the firm into the next generation.

Chapter 6

The second generation and beyond
Succession is not just a question of transferring a tried and tested system for running the firm into the next generation. Indeed, thinking of the transition as just 'changing the guard' is a fundamental and dangerous mistake.

The noted US authority on family businesses, John L. Ward, proposes a perspective on succession based around one critical variable – ownership. His central idea is that understanding the ownership structure in a family business is often fundamental in understanding the real forces that are at work during the succession process.

This approach tends to defuse personality issues by concentrating on structure and context, and it classifies family businesses into three types:

- Owner-managed businesses in which ownership and management of the company are in the hands of just one person.
- Sibling partnerships where ownership has been divided more or less equally among a group of siblings, some or all of whom work in the business.
- Cousin companies (third generation firms and older) in which ownership has been spread across a group of shareholders, a significant proportion of whom take no part in the day-to-day management of the business.

Forms of ownership

1. Owner-managed businesses
In this guide we've concentrated on first generation owner-managed businesses – ie the succession problems facing business founders and their families. This is because (a) a massive 76 per cent of UK family businesses don't make it past this first transition, and (b) many of the basic psychological and practical difficulties (and approaches to resolving them) that apply for first generation firms are equally applicable to succession between later generations.

Nevertheless, in adopting this treatment of succession we've tended to reinforce a bias in favour of the owner-manager model. The problem is that this can lead family businesses and their advisers to believe that the task of succession planning is to choose one, and only one, leader to be the successor. Thinking about succession in these terms can be misleading.

2. Sibling partnerships

Second generation family firms run by the sibling offspring of the founder sometimes violate the single-leader model by taking one of two alternative forms: (a) 'first among equals' partnerships; or (b) true partnerships.

This approach tends to defuse personality issues by concentrating on structure and context, and it classifies family businesses into three types:

(a) 'First among equals' is where one sibling in the partnership has perhaps a marginal edge on the others, who are willing to accept the individual as the respected leader of the company and its figurehead.

(b) True partnerships (ie two or more siblings operating as a real team of equals) are becoming increasingly common in both small and larger enterprises. Leadership is shared and the siblings manage the business on the basis of consensus.

Both types of partnerships depend on there being some sort of shared vision and a strong sibling bond that fosters collaboration and helps create and maintain successful teamwork. If this bond is missing, it's unlikely that a sibling partnership of either sort will work.

The bias in favour of single leaders has often resulted in pressure being placed on companies with sibling partnerships that are operating, or could operate, perfectly successfully. Family business advisers have said, 'That structure won't work – if you want to be successful, you need to have a single leader; someone with ultimate decision-making power.'

3. Cousin companies

By the time the third generation is in place, there's a well-established business and there may be several dozen family members who have some sort of stake in it.

Unlike siblings brought up in the same family, cousins often have very little in common. Even more than with sibling partnerships, therefore there's a fundamental need for cousins to develop a shared vision about the future of the business that provides vitality plus a sense of common purpose and direction.

In addition, governance structures and mechanisms need to be introduced into cousin companies in order to manage the diversity of interests and demands, and to build consensus among an often disparate group of owners and family members. These include:

- a formal board of directors including some talented outsiders. It's no longer possible to rely on the informality that may have worked (and indeed been a great strength) at the sibling partnership stage
- a family council at which the family coordinates its values and defines its relationship with the business (see the earlier guide in this series, **Getting the family to work together**)
- rules and policies concerning family entry to and exit from the business
- policies and procedures on buying out shareholders who want to leave.

The ownership perspective on succession

Not all owner-managed family firms are first generation businesses. There are examples of family businesses where the single-owner model is recycled, and the company is passed on to just one owner in the succeeding generation: it's a very distinctive type of succession that's often found in, for example, farming businesses where families don't want to split land holdings among siblings. Also, buy-outs at family firms can lead to the re-establishment of either an owner-managed business or a sibling partnership, where one branch of the family buys out the others and takes control. Such recycled family firms are a common occurrence and can enable families to perpetuate their entrepreneurial wealth-creating skills.

John Ward's key point here, however, is that when the transition is from a single owner to sibling partnership, or from a sibling partnership to a cousin company, it's not just changing the people, **it's changing the system.** It amounts to introducing a different type of business structure with a different culture, different procedures and with the requirement for a different set of ground rules.

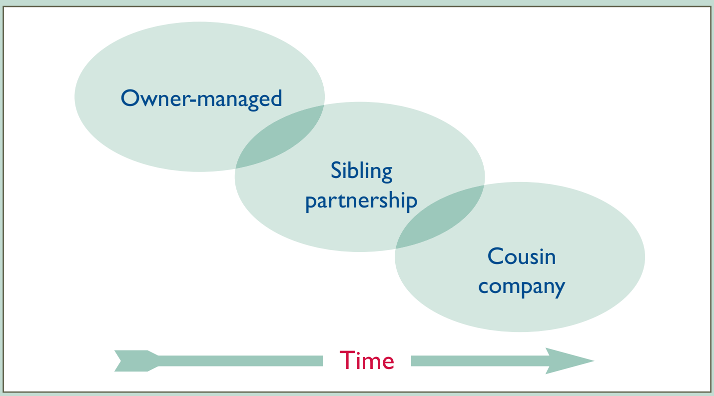
New system, new culture

In the first generation, the culture tends to celebrate the heroic achievements of a founder who, often against all the odds, has built a substantial business from nothing, and who continues to guide it through adversity. The culture of a sibling partnership, in contrast, celebrates the achievements of the team working together, and no individuals are seen as heroes.

So, what works in the owner-manager structure does not always work (and can indeed be a recipe for disaster) with sibling partnerships. If siblings look to what their father or mother did in achieving success at the owner-managed stage and try to emulate it in the sibling partnership phase, they usually fail. Moreover, it's easy to overlook the huge challenge that this implies – in effect one is asking siblings to forget what they learned through decades of observation and example, despite the fact that they have masses of data proving that what it was they learned worked very effectively.

Another point about these changes in system and culture is that they do not take place overnight. What happens in most successions is that there is a transitional period (illustrated in Exhibit 6.1) during which the business is effectively 'between systems'. Depending on the spread of ages within generations, these periods of overlap can last up to 20 years.

Exhibit 6.1 - The transition phases



So, in owner-manager to sibling partnership successions, as the transition progresses the business loses certain of its owner-managed system characteristics (heroic culture, centralised decision making, etc) and gains more sibling partnership characteristics (shared vision, effective teamwork etc). During the transition, there is a hybrid business that is transiting from one model (owner-manager) to another (sibling partnership), and this can be confusing for everybody.

A key reason for the confusion is that behaviour, strategies and methods that used to work effectively in the outgoing system no longer work in the incoming system, so this creates a dual need:

(a) to forget or 'unlearn' what used to work, but no longer does

(b) to define and then master what used not to work in the old scenario, but now does in the new.

Not surprisingly, it's generally challenging for people involved in succession to understand and get to grips with these counter-intuitive ideas. So for example, around the mid-point in the succession transition from owner-manager to sibling partnership, there will typically be a group of siblings trying hard to become a team, but working under the owner-manager who not only finds it hard to understand teamwork, but may well see it as a sign of weakness ('It's slower, it's cumbersome, no one is really the boss, it confuses the employees' and so on.)

The need to understand that it's the system, not just the personnel that's changing, applies equally in transitions to the third generation, when a sibling partnership is passing to cousins. The siblings are looking at the incoming cousins and trying to work out how, as family diversity increases, unity of purpose will be maintained. But siblings cannot assume that what worked for them in growing the business will also work for the cousins. Neither can they assume that the cousins are going to behave like they have done; siblings generally overlook how little the cousins will have in common and that they'll operate within a different system that has different values, rules and methods.

At sibling to cousin transitions, siblings also tend to overlook the added complexity with which cousins are going to have to cope, and fail to appreciate the extra structure, formality and governance systems that the cousins will need to introduce in order to help them manage this extra complexity.

There's a useful sporting analogy here involving thinking of the owner-manager as a tennis player who is brilliant at the game but who can only play singles – they are no good at doubles because they are not strong at teamwork. The sibling partnership, on the other hand, can be represented as basketball, where having individual stars is very helpful but where no single star alone would ever win the game. Finally, the cousin company equates to a 15-player rugby side where teamwork is overwhelmingly important and the side has no hope of success unless the players operate effectively as a team. Personalities and strategies that succeed brilliantly in the context of one game may well prove a recipe for disaster in another.

Introduce structure

In an earlier guide in this series (**Getting the family to work together**) we saw that as family businesses develop they become more complex, and that family tensions begin to surface that interfere with the effective functioning of the business. It was explained that the best way to combat this is by introducing 'structure' in the form of rules, policies and procedures that help the family develop a cohesive approach to the business. This might include, for example, establishing a family council and adopting a written family constitution on rights, responsibilities, organisation, voting procedures, conflict resolution procedures and so on.

Such mechanisms become especially valuable when, in Ward's model, transitions are taking place between one business form and another. In a nutshell, the effective response to growing complexity and the accompanying increased level of family and business cross-currents and tensions is to introduce structural mechanisms and formal procedures that 'de-emotionalise' the situation and allow people more opportunities to communicate in a structured manner, progress rationally through the problems and find ways of working with each other.

Feasibility

The different ingredients that make for success in the three types of family business – eg the heroic entrepreneur in owner-managed businesses, the shared vision in sibling partnerships and effective governance systems in cousin companies – serve to emphasise the point that feasibility is a critical question to consider in the succession process. Take, for example, the case of families with flourishing owner-managed businesses who do not possess enough of the necessary ingredients for the establishment of a successful sibling partnership in the second generation, but who nevertheless press forward towards this unsuitable and potentially damaging objective.

In any succession, families need to question whether the conditions surrounding the business today are right to allow it to make a successful transition to the form to which it aspires in the next generation. When there is an element of uncertainty and doubt it is necessary to try to foster and consolidate the right conditions and weigh up the case carefully, looking at the business needs and the capabilities of the family. If the answer is clearly 'No', family members need to face up to the fact that what they are planning is neither feasible nor sensible, at which point other solutions should be evaluated, including an exit.

A particularly valuable aspect of Ward's three-model approach to succession is that it helps to focus attention on the issue of inter-generational teamwork (discussed in Chapter 3). Both generations on either side of the particular succession transition can work on the task at hand, and having such a pretext for collaboration is precisely the sort of inter-generational rallying point that often helps families to negotiate transitions successfully.

Chapter 7

Conclusions

The willingness of family company owners to plan for their succession is often a decisive factor determining whether the business survives or fails.

Some family business observers believe that family firms should never be put in the hands of the founder's children. They argue that successors are rarely as talented or motivated as the founder. Also, the more successful the founder, the larger the company and the less likely that the children will be capable of running it.

But more than 76 per cent of UK private companies are family owned, and there are many examples of highly profitable and well-run family firms (both private and public) that have remained in family ownership for generations. A key element of their success is that those leading the business have been able to manage the complex and emotion-laden issue of succession from one generation to the next.

Planning is crucial

Succession confronts owners with a complex set of practical options and, in most cases, difficult commercial decisions have to be taken against a backdrop of bewildering psychological and cultural pressures: fear of death, reluctance to let go of power, and the family taboo against favouring one child at the expense of another are just a few examples. Founders need a well-structured and systematic approach to succession planning if they are to overcome all the forces that favour doing nothing. Key conclusions are:

- start planning early, involve the family and colleagues, and take advantage of outside help
- let your children know that you will welcome them into the business if this is their choice and provided they have the necessary capabilities. But, equally, make clear you'll understand and be supportive if they choose other careers
- if the next generation do want to join, encourage them to start their careers working in other organisations

- if they join, provide them with a training programme that's relevant and worthwhile, that allows them to make mistakes and to achieve their highest level of potential
- establish a succession process as soon as possible and, once the choice is made, leadership and control of the business should be transferred in a step-by-step process that allows for smooth adoption of new roles and responsibilities (by the successor and the founder) and that minimises pain and disruption
- as early as possible, establish a target date for your retirement. This should be far enough ahead so that your successor and everyone else can plan and prepare for it. Once you've set a definite date, stick to it.

Making the choice

In the last analysis family company owners must be honest in assessing the capacity of the next generation to become business leaders. If a child lacks that capacity the owner must face up to this reality because, like so many other family business problems, brushing it under the carpet will only make it worse.

Over-promoting successors does them (and the firm) no favours at all. As well as damaging the business, putting any family member into a job that's beyond their capabilities risks causing alienation among family members and destabilising their career, and possibly even their life. Consider the possibility of bringing in an outsider to run the company – family members who still want to be involved may well fill other roles.

Judging whether someone has the capacity for the job is a 'touch and go' affair. Also, it's possible that although someone may not be up to the job at the moment, they could grow into it in the future. This situation therefore involves striking a balance between, on the one hand, cutting the family member off from opportunity, and, on the other, giving them a chance to make the grade.

Third party advice can play a key role both in helping a successor sort out priorities and objectives for their future careers, and for owners in objectively assessing the business acumen of the next generation. The third party could be a non-executive director, or one of the company's professional advisers, or a trusted non-family manager. The crucial thing is that the chosen individual knows about the business, is respected by both generations, and is able to combine the roles of mentor for the family member and provider of candid advice and performance assessment for both the owner and the successor.

Quite often it becomes clear that a family member will grow into the top job in time, and a useful solution here is to employ a caretaker MD until a transition within the family can take place.

The next generation's perspective

The next generation in a family business have a unique opportunity to build a challenging and enriching career for themselves.

The advantages of their situation are obvious. The business is already up and running. It offers job security and possibly an attractive remuneration package. Working in a family business can be extremely rewarding. Family businesses often possess an atmosphere that encourages a 'sense of belonging', where there is extra commitment to a common purpose, and decisions can be taken very quickly, all of which can help provide a valuable competitive edge. Also, from a personal standpoint, family members enjoy a special status both inside and outside the firm, and it's a distinct possibility that one day they may become owners of the business.

Nevertheless, there's a price that has to be paid for these advantages. Family businesses are generally not diversified businesses that can withstand downturns in some of their markets relatively easily. There may be doubts about whether the business will survive in the long-term, and if the family are looking for career security the family business may not be right for them. If they join for the wrong reasons (searching for a safe haven, for example), or because they have not thought through the emotional complexities of family business life and the commitment they must be prepared to make, then it's possibly a decision they will live to regret.

The senior generation today should tread carefully before counting on their offspring as automatic successors. Where successors have grown up believing that they will inherit the shares as a matter of right, rather than having to demonstrate tangibly their level of commitment, this could trigger warning signals. One solution to this concern involves the next generation being given some shares, but only on condition that they purchase the balance of their eventual holding. The need for successors to put up cash to acquire shares could help them to decide just how serious their commitment and desire to join the family firm really is.

Key conclusions relating to the next generation's perspective on succession are:

- before joining the family business, discuss the prospect as well as other career possibilities with the founder and/or other senior family members and directors
- if you do join, make sure it's because you're committed, not because it's expected of you or an easy option
- obtain outside career experience first. It will help you to develop an objective view of your own talents and abilities, and will also make you more effective if you do join.

The next generation in a family business have a unique opportunity to build a challenging and enriching career for themselves.

The business school view by Professor Nigel Nicholson, London Business School*

The challenge of leadership succession

Leadership is the key to family business success, and succession is the bridge that has to be crossed to sustain it. This often proves to be a bridge too far, for succession failure is probably the single biggest cause of family firm derailment. This guide provides a practical overview of the hazards and how they can be dealt with. Taking the more detached perspective of academic interest, there are several themes that can frame this analysis. They concern what leadership means, who can and should be a leader and what is the nature of the challenge of transition?

One problem with the idea of leadership is that it conjures in people's minds exaggerated perceptions of who you have to be and what you have to do to be a leader. The tendency is to look at heroic figures in business or history and then feel inadequate. The truth is that throughout the business world ordinary men and women are doing a great job as leaders without trying to be Nelson Mandela. A first step to cutting the role down to size is to recognise that leadership is not a single role. There are as many leadership roles as there are leadership situations. Understanding what these are is a first step to success. Running a small, fast-moving, entrepreneurial, high-tech firm makes quite different demands to heading a division of a large corporation or leading an R&D team. Moreover, there is more than one way of leading a given situation. For example, a team-based versus a top-down systems approach may both work in a family firm. Add to that the idea that the demands can change over time and it becomes clear that one mark of a great leader is being able to read the situation – to understand the nature of these changing demands, and then to either adjust one's style to them, or to shape them to fit one strategic purposes.

This raises the second question: how much can we adjust our leadership style to fit the situation? In many aspects of character we seem to have little room for manoeuvre. We have our unique profile of character biases, abilities and aptitudes, strengths and weaknesses, and these are not going to change much during adulthood. Our genes and our early upbringing have given us a set of emotional reactions, impulses, drivers and thought processes that are more or less set. However, we can change our behaviours and our ideas. Management comprises a range of skills that everyone can master, and leadership is how individuals manage in their own unique way. So everyone can be a leader, and the biggest barrier is motivation: not wanting to take on the role. If someone's instincts and drives lead them to reject leadership roles, then they are probably right. There are other important things to do in a business besides being a leader.

And herein lies the problem of succession. Just because the children of a family business share the parents' genes, there is no guarantee they will have the same drives and motives. In fact, research shows that they are more likely to be different than similar. This represents a great opportunity in some family firms, where the next generation brings a fresh perspective. In these cases the problem is letting go, and too often in family firms the senior generation has been overly fearful of change, partly driven by their own fear of loss. Succession also poses a problem where there is no next generation interest. This can change, and sensible family business owners bide their time and take a pragmatic approach to bringing in non-family executives, based upon a sound analysis of the leadership demands of the situation.

Finally, there is the succession process itself. This requires intelligent and sensitive handling. Succession has stages – what I have called a 'transition cycle' – each of which has its special demands. They are:

- Preparation – what has to be done leading up to succession.
- Encounter – the period of initial learning and induction.
- Adjustment – the period while ascending the learning curve to achieve polished performance.
- Stabilisation – the implementation of systems and methods that work in harmony between leader and situation.

This cycle affects not just the incoming executive, but also the outgoing, and the best-managed succession in family firms pays attention to the changing situation and needs of its departing leadership.

* Professor Nigel Nicholson is Director of the Leadership in Family Business Research Initiative (LIFBRI) at London Business School, and author of **Managing the Human Animal** (published in paperback in 2004 by Thomson Learning).

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Peter Leach Associates Ltd
14 Manchester Square
London, W1U 3PP
+44 (0) 7836 206 011
peterleachassociates.com

PETER LEACH
peterleachassociates.com
14 Manchester Square
London, W1U 3PP
+44 (0) 7836 206 011