

TRANSITIONING THE LEADERSHIP IN FAMILY BUSINESS

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Family business is a type of organization where the control of business ownership and management is possessed by members who are associated to each other either by blood or by marriage. We can also say that a Family business is the form of business in which the majority of shareholdings is owned by the family members, who also tend to occupy the leading positions in the organization and are responsible for all decision making. In short, the family members possess the rights to manage and run the business since they have the ownership controls.

Why Family Business Transitions Fail?

Although the family-owned businesses are the backbone of any economy and their importance cannot be challenged in any given case, but the research and history of family owned businesses worldwide depicts that very few of these businesses remain active after transferring the business's leadership to the next generations. The stressful performance of majority family-owned businesses is generally caused by a lot of factors, but reportedly the major ones remain these four, described as under.

- a) Family members do not share a common vision when it comes to business and its growth,
- b) All the successors do not possess the required managerial skills as of their predecessors,
- c) Continued quest for power and majority of stakes among the various successors,
- d) The distrust among family members when it comes to financials and power.

When we refer to the term “Transition of Leadership” in perspective of organizational management, then it actually refers to ‘not only the transfer of ownership, but also the transition of business’s management control from previous business leader to his successors’.

Challenges in Family Business Transitions

In the developing countries, a wide majority of family businesses face a robust amount of challenges while they move for transition of leadership from one generation of the family to its next. Thus, navigating through the complexities of familial relationships while also understanding how unwritten processes and procedures work, are among the two most significant challenges of transitioning a family-owned business to its next generation. In addition; the challenges also lie in transfer of power and ownership control from one generation to other, coping with sometimes much problematic financial accounting, and also facing the potential loss of clientele as a lack of trust emerges because the patriarch is pulling away.

Potential leadership transitions, specifically in present economic situations in the context of a volatile business climate, are creating special challenges for Family owned Businesses (FOBs). A series of questions is the key, that needs to be addressed:

- a) During the whole transition period, what steps will be taken to ensure that company’s culture remains intact and an environment of distrust and disruption doesn’t get generated?
- b) How the business stakeholder’s / owners involvement in the day to day business operation will be optimized?
- c) Giving priority to the business goals in both the short term and longer term, how to seamlessly and successfully build the link between top tier of business managers and the new set of owners’ / family members?

The answers to all of the above questions are seldom easy, but only these answers hold the key to establish a base for the successful transition.

Choosing the CEO

Multiple options exist with Family businesses when it comes to choosing a new CEO, but the ultimate choice or baseline is to weigh down the pros and cons and deciding whether a family member or outsider would be the best choice for this position.

Joe Bower, a researcher at Harvard Business School, studied how companies perform after hiring a new CEO, noting whether the successor had been recruited from inside or outside the company. He has presented four main options to consider in this scenario based on his insider-outsider approach:

The Family Insider: is a family member who has worked in the family business through and through, so he not only knows the family values, but is also well versed with the business's ins and outs. These have traditionally been the most preferred choice of successorship in most family companies. To their ultimate advantage, these people are backed by owners and bring to the table a deep understanding of the business. But Family Insiders are not always the right choice. They often face difficulties whenever they try changing the business model. Such significant changes often require letting some loyal people go and leaving some of the company's long standing practices. In a fast changing industry, such changes are more common. Secondly, these people are most easily influenced by their predecessors and often fear making changes to the already established process flow or status quo.

The Family Outsider: is a family member who has not worked in the family business. These family members have dual benefits, a). the strength of having pre-established bonds with the family, b). possessing a right set of achievements under their belt by having work experiences that are not in the family business. These people have the right set of family values and though they respect the strengths of the company but are aggressive change agents.

The Non-Family Insider: is a person, who is not a part of family by blood or by relation, but has extensive work experience in the employment of family business. Typically, these are the professionals who have grown their careers with the family business. These professionals understand both the company's internal systems and respect its culture and values. But the only challenge they face is the same difficulty in making significant changes to the company, just like Family Insiders.

The Non-Family Outsider: is a person who is neither a family member, nor he has worked with the family business. This is a person who has the versatile skills and experience needed to change and then grow the business. But they need to also respect the strengths and culture of the company; which unfortunately not all Non-Family Outsiders do. In fact, some have disdain for the values and fundamental orientations of family companies—and these leaders usually fail, rather spectacularly.

Thus in the family business succession plans, I recommend that the family business owners initially consider all four options when faced with the business leadership transition choices. It is neither healthy nor wise to presume that one type or another is right in comparison to others. Whichever of these options you ultimately choose as a CEO, it's always a good idea to develop successor candidates who appreciate your culture, respect your strengths, and who are good at preserving key relationships. But they should also be able to move the organization away from activities and practices that are holding it back, toward those that can grow the assets of the company and revitalize it.

Succession Planning of the Family Business Leader

The ultimate question after all what we have discussed above is that, if establishing succession has such a significance, why is it often overlooked? An undisputed reality in this perspective is that since getting wrong on the succession decision can have a devastating impact on both, the family and the business; most of the business owners either delay their succession decisions or they just ignore it under a confidence (usually a false confidence) that their family will fare well on this decision after their departure. Thus although a large number of family business leaders agree that having a successional business transition plan is immensely important for the smooth continuity of their business, only 18% of the family businesses actually have a written plan. Why is this so? Because transitioning a family business into the next generation is one of the most complex issues a family-owned or family-managed enterprise will ever face, because it requires transitioning at three levels all at once: personal, professional and business.

a). Succession Planning: The Personal Level

On the personal level, the existing business leader also acted as a family's elder and had devoted his entire adult life to not only successfully running the business but also in keeping the peace among the family. Thought it takes an intense commitment and can become all-consuming but the results are often rewarding. But simultaneously it may seem almost impossible to think about what this elder would do if they are no longer running the business, or leading the family. So ultimately this transition often results in an unknown fear of questioning one's own sense of self-worth may be completely tied to the role. The person may wonder how they will be viewed by family, colleagues and friends once they are no longer the person calling the shots or the man who everyone always looked upto for decisions. For some, succession planning feels like writing the last chapter of their life's story. For others, there is immense joy in handing over the reins of responsibility and moving on to what's next. In my experience I have seen that the leaders who view succession as the conclusion of their current role and the start of their next, not only they do a much better job in leading succession planning for the business and family, but they are also excited to start their next chapter.

b). Succession Planning: The Professional Level

Next comes the transition at professional level where assessing the qualities and competencies of the potential new leader is not an easy task by any means. By our human nature, we tend to be attracted to people who have similar qualities as our own selves. Thus it is indeed a daunting task for a current leader to objectively identify what attributes the next leader need to possess in order to be successful. In real life scenarios, there are many times when the current leaders often commit to a succession plan on paper, then sabotage it themselves in reality by never really leaving the role. A client of ours, who turned over the business reins to his son, still daily came to, continued daily meeting with key personnel and providing his opinion regularly. For everyone, either they were employees, or the customers and

even his son, the situation was as if the transition never happened. This not only led to an utter and unjustified lack of confidence in the son and also resulted in family issues.

So what could be the best approach to prevent this chaos? It could only be prevented by our good old method of Brainstorming and then defining the roles (if any), of the retiring leader and the new leader. The best option is to keep the retiring leader only at board level or as an advisor of new leader (only when asked or in very dire situations). The day to day operations shall be kept away from the retiring leader because it not only avoids conflict but it is also very necessary to help the successor in establishing his command over his team. The earlier, the retiring leader separates himself from the team and day to day operations, the quicker his successor succeeds in establishing his rein.

c). Succession Planning: The Business Level

Finally, there comes the level where business interests are to be considered at priority. Succession planning for business level presents a great opportunity for both, the business and the family to think extensively about the future. This will help everyone in answering the significant questions like; How the business is viewed by family: as an asset to be monetized, or as a critical component of their family legacy? Succession planning can be a very scary time for everyone, and only being involved in this process is an experience which allows the members to feel more confident in the future, whether or not they agree with the ultimate decisions taken as result of this process. The most important thing here is to simply get going on this process sooner, rather than later. Succession planning must always be considered as a step toward aligning the retiring leaders' own desires with those of the family as well as the future needs of the business.

In a Nutshell, each of these three levels of transitions has its own unique kind of challenges. From among a wide array of succession stories, many family business leaders have shared that they never knew where to begin the transition. The prospect was always so overwhelming that they just kept pushing the things off to the future. In my one and a half decades of advising family businesses, I have never had a client who suggested that they had started the succession process too early, because almost everyone puts it off as long as they can, but then the reality strikes and it is not always as pretty. Thus the formal assent towards succession planning for personal, professional and business levels is preferred for a better safe than sorry approach.

Warm Regards;

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