

CHAPTER 4 - Succession: Continuing Entrepreneurship and the Next Generation

A Profile of Successful Successors

- They know the business well; ideally, they like or even love the nature of the business
- They know themselves and their strengths and weaknesses, having had the necessary outside experience and education
- They want to lead and serve
- They are guided responsibly by the previous generation, by advisors, and by a board of outside directors
- They have good relationships and the ability to accommodate others, especially if part of a successor team
- They can count on competent nonfamily managers in the top management team to complement their own skills
- They have controlling ownership or can lead, through allies, as if they did
- They have earned respect of nonfamily employees, suppliers, customers, and other family members
- Their skills and abilities fit the strategic needs of the business
- They respect the past and focus their energies on the future of the business and the family

Next Generation Succession

As the decisions of whether or not next-generation family members should be involved in the family firms are being made, it must be kept in mind that there needs to be a good fit between the abilities and interests of these family members with the needs of the business at its current stage of development

It cannot be assumed that the interests, strengths, and abilities of the next generation are identical to those of the current generation of leaders, or that the attributes required to launch a business are the same as those required to grow or manage it

It is imperative to conduct a careful evaluation of the business needs and the family members' abilities and interests, to ensure simultaneous success of the business and career satisfaction of family members in this business

Succession in Canadian Family Businesses

According to PwC's latest Global Family Business Survey the future of family-owned businesses in Canada is questionable due to a lack of succession planning

Less than 50% of Canadian family business owners plan on passing their business to the next generation, a significant change from 90% in 2007

Rewards for Latter-Generation Family Members

- Accumulated knowledge transfer
- Reputation of the established firm
- Knowledge of the work environment and key management

Challenges for Latter-Generation Family Members

- The shadow of the founder
- Lingering questions about the ability to run the business
- Need to prove merit vs. nepotism
- Endowment effect: greater value placed on what has been attained rather than future opportunity
- Resistance to change especially under conditions of great success in previous generations

Next-Generation Leadership Imperative: Vision

The next-generation leader provides a vision that rejuvenates the business and makes it competitively fit in the succeeding generation

Financial and Emotional Capital

Figure 4.2 | Performance of Family Firms

		Family Dimension	
		Positive	Negative
Business Dimension	Positive	I <i>Warm Hearts</i> <i>Deep Pockets</i> High Emotional and Financial Capital	II <i>Pained Hearts</i> <i>Deep Pockets</i> High Financial but Low Emotional Capital
	Negative	III <i>Warm Hearts</i> <i>Empty Pockets</i> High Emotional but Low Financial Capital	IV <i>Pained Hearts</i> <i>Empty Pockets</i> Low Financial and Emotional Capital

Desirable Next-Generation Attributes

- Integrity
- Commitment
- Respected by other employees
- Competence in decision making
- Competence in interpersonal skills
- Skills in marketing, sales, finance, strategic planning, and technical aspects

Nature of Next-Generation Commitment

Affective

= Wants to contribute and pursue a career in the firm as most desirable of opportunities

Normative

= Ought to join to accommodate the family

Calculative

= Joins based on the perceived value of ownership stake and opportunity costs

Dependent

= Joins the firm as a safe career haven

Next-Generation Development

- Smart money management
- Managerial worthiness
- Family relations

Training the Next Generation

- Heirs should learn early that family business means stewardship and responsibility
- Training suggestions
- Allow young family members to work for a salary and develop a work ethic
- Provide youngsters with an expense account to teach financial responsibility
- Compensate young family employees at the market rate and provide performance reviews
- Sibling problem-solving and interpersonal relations skills

Sibling and Cousin Teams

Cases in which a team of siblings or cousins assumes power, through an "office of the president" or an "executive committee," represent only a small minority of all CEO successions

In cases in which no individual team leader is chosen, the concern is that the choice may represent not only the CEO-parent's informed decision as architect of the firm's continuity but, rather, his or her inability to decide

Sharing the Power

Shared leadership is becoming increasingly popular for Canadian family businesses

A Canadian survey by Pervin & Co. and a U.S. Poll by MassMutual suggested that more than 40% of North American family businesses plan to have some form of co-operative leadership

Interdependence of Team Members

- Interdependence, or coordinated independence, is a central issue for sibling and cousin teams, and a very difficult one to manage
- It is at the root of most disagreements between and across generations
- The best way to minimize the difficulties that may arise is to design an organizational structure that establishes very different roles for the different members of the next generation

Managing Interdependence

- Establish common goals
- Reflect those different roles in an established organizational chart
- Develop procedures that reduce relationship wear and tear
- Establish forums for discussing relationships and sharing feelings on an ongoing basis so that bad feelings are not allowed to fester and multiply unchecked
- Transfer ownership with full recognition that the next-generation CEO needs to have not only the job and the title but also the ability to lead, whether alone or with true allies, as if she or he had 51 percent of the voting stock

Next-Generation Leadership Responsibility

"Each generation has the responsibility of bringing to the business their own vision for the future of the business."

—*Samuel Curtis Johnson III, former Chairman,*

SC Johnson: A Family Company

A Vision for the Company: Taking It to the Next Level

Compared to their predecessors, younger members of a business family are often more inclined to accept new technologies and more prone to assume the risks that go along with promoting growth of the business

The business reason for welcoming the next-generation's ideas is that their complementary skills and perspectives are precisely what a family business often needs as it struggles to update itself in order to grow and continue to create value for its customers