TOMORROW'S CHALLENGES

MEET THE FAMILY

By Professor Joachim Schwass – June 2013

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Most family businesses are not very good at handling a succession. This is partly because they lack regular practice. Handovers in a family firm might only happen once every few decades, far less often than in public companies. Then there is emotion. In addition to family politics and feuds, parents are often unable to make a rational assessment of their children's leadership abilities. Disputes at handover time are inevitable.

This is worrying, because succession is a much bigger deal for family firms than for public companies. When a family business has been led by one personality for decades, passing the torch to the next generation can be a disruptive, even traumatic event. Since the long-term survival of the business may be at stake, family firms often turn to business schools for help.

Business schools do not get involved in potentially messy handovers for the intellectual challenge, stimulating though this may be. Our role is twofold. First, to provide practical advice on strategies and governance structures that will help steer companies through the handover. And second, to be neutral and rational and defuse some of the internal conflict.

But why should family-owned firms turn to business schools for succession advice rather than to lawyers, accountants, professional mediators or other external advisors? The best business schools understand all three aspects of succession: family, ownership and business. These three elements often pull in different directions, especially with large families and older businesses. This all adds to the complexity, and providing advice can be a delicate task, to be sure. But the three-pronged approach adds more value than the one often taken by professional services firms, who focus narrowly on the business and produce a succession document for family members to sign.

Ideally, we always start by looking at what family members want, both in terms of ownership and their role in the business. Some family shareholders might be wedded to long-term visions and values while others want short-term profits and pay outs. And while some family members might be executives in the firm, others have no interest in management. We also assess whether the business itself can survive, because not all family firms can or should be passed on to the next generation. This is not always as heartbreaking as it sounds. In one case we advised the family to exit the business because industry consolidation was marginalising their market share. But there was also a clear lack of interest in running the business among the next generation.

Since it is ultimately about people, family business succession raises the same broad issues everywhere. But business schools' prescriptions may vary depending on things such as the country and the age of the business.

Family businesses in Europe tend to be older and multi-generational. They may need strong growth to support all the siblings and cousins, as well as a governance structure that reflects the family's diversity. American family firms tend to be more entrepreneurial, with first-generation founders letting the next generation decide what to do. Asia and the Middle East, meanwhile, have a more paternalistic tradition, with the senior generation still having a lot of influence over their children's career choices. But these are generalisations. Succession is very much a case-by-case business.

Families don't always follow business schools' recommendations, of course. Their internal power structures may simply be too entrenched, or they may use our advice as one of several viewpoints that shape their eventual succession strategy.

Generational handovers are complex events, and managing them well is crucial to the long-term survival of a family business. Of all types of company, family firms have the greatest potential to endure in the long run. Privately owned, they are often based on a vision that stretches into the next generation and are driven by the values of their long-term owners. And many of the oldest family businesses have prospered by adopting unconventional strategies generally avoided by listed companies, such as vertical integration and forming conglomerates. But they have to get the successions right.

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