Not all scions are useless at business

Some corporate heirs deliver a competitive advantage for their family group

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In the lore of family businesses, the unworthy heir is a recurring theme. Weak-chinned wonders are promoted to the top job when their far more capable parents retire or die, only to pursue a strategy that gradually wrecks everything the family built, while long-serving staff mutter “I told you so”.

People trust family businesses significantly more than they trust business in general, according to an opinion poll by Edelman. More than twice as many people want to work for them as do not — and are more committed. Customers will pay more for their products.

But they shudder when introduced to Junior and his siblings. Nearly two-thirds believe the next generation will mismanage the company and just over half of family business employees think scions are less talented than their forebears.

Hang on, though. Throwing out the baby could also be rash. What looks like bath water could in fact be a cocktail of important family traits that gives the business its competitive advantage.

In 2014, I castigated Rupert Murdoch for producing a succession plan that in effect allowed the family to maintain both ownership and management of their media empire. I wrote that he should instead have emulated Leonardo Del Vecchio, founder of the Luxottica eyewear business, who had passed management to trained professionals 10 years earlier.

Upsetting my thesis, Mr Del Vecchio, now in his 80s, promptly reversed his hands-off strategy, stepped back in to take control and set off on a dealmaking spree, causing share price and governance turmoil.
Meanwhile, Mr Murdoch, having tested his older offspring — Lachlan, James and Elisabeth — in different parts of the empire, has anointed Lachlan and James as the most likely to lead the group into the future.

Like me, you may disapprove of the Murdochs' style, particularly their UK newspapers' involvement in the phone-hacking scandal. You may worry about James's potential conflicts of interest at Sky, the pay-TV group, where he is likely to face investor protest as he stands for re-election as chair, despite being chief executive of 21st Century Fox, which is trying to take Sky over.

But many families are now using a Murdoch succession template. Instead of ditching heirs on the basis of surname alone, they are selecting the siblings best suited for operational roles, testing them in other parts of the business, or setting them free to run their own start-ups first.

Choosing a favourite remains an emotional decision. The potential for error is still great. King Lear remains a fine case study of succession planning gone horribly wrong.

But Denise Kenyon-Rouvinez, director of the Global Family Business Centre at IMD business school, points out that removing emotion altogether neutralises one element of family business success.

The offspring of founders are increasingly well prepared. "We often pose [the succession question] as family members versus professionals, as if families aren't professional," she told me. “But they may have gone to the best schools in the world and be outstanding.”

Some old assumptions about succession are just a side effect of the business cycle. Handing over to the third generation is often problematic. But many companies have in any case overrun their natural lifespan. Combined with the near-certainty that some of the proliferating branches of the family tree lose interest after a few decades, or decide they need to cash out, dissolution is often unavoidable.

The arithmetic can, however, benefit family businesses that survive. Prof Kenyon-Rouvinez has studied the 30-generation, 700-year-old Frescobaldi wine-growing dynasty. In its 29th generation, the family stopped appointing its firstborn sons to leadership positions, and started tapping a wider sibling group.

Similarly, Central Group, the Thai retailer, employs 51 descendants of the company’s founder. It has traditionally drawn on managers and leaders from the large Chirathivat family.

“The company is growing faster than our babies,” third generation chief executive Tos Chirathivat told the Nikkei Asian Review recently. It now selects outside managers, too, but with the important caveat that they should be chosen for how well they fit the family culture.

“Heir underperformance”, as the academics euphemistically call it, is not a myth. The long-running World Management Survey puts family- and founder-owned businesses whose chief executive is also a founder or from the family at the bottom of its ranking of best-managed groups.

But implying that heirs are always too selfish or grasping to give up power — or too feeble to hold it — is to underestimate how quickly some family businesses are growing up.

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