

IFB 3rd National Forum Conference: Managing transitions

OUR 2004 CONFERENCE brought together a broad group of speakers including some leading family business owners – from across the UK, Ireland, Switzerland and the Netherlands – to discuss their perspectives on the issue of managing transitions. Here's my pick of some of the most interesting discussion points that came up.

A model for transitions

Generational transitions should be seen as processes and not events: this is the theory at the centre of a conceptual model, designed to help understand transitions, presented at the conference by Dr Kelin Gersick, senior partner at Connecticut-based advisers Lansberg Gersick and Associates. The process involves five phases: preparation, disengagement, exploration, choice and implementation.

Pressure for change is constantly building within family firms – sometimes slowly, sometimes quickly – as family members become older some become less capable and others more capable, while the business too has to respond to ever-changing markets. Trigger events, like impending retirement or sudden ill-health, are important elements in kicking off change and transition, and being ready for them is what the preparation phase is all about. But once a trigger event has taken place, the key to success is allowing each of the next four phases to develop and not to rush to try to find quick solutions and easy fixes.

Disengagement centres on letting go where necessary of current procedures and governance structures, creating acceptance of change among anxious family, employees and customers, and defining how it will take place. Probably the hardest part of generational transitions is in the exploration phase, keeping the doors open to a calm investigation of new models for the future while resisting pressures for premature solutions. But after a full exploration of the options, it's then time to move on swiftly into the choice and implementation phases, deciding on an announcement strategy, setting a time-frame, and creating an incentive structure for the change.

During transitions, leaders in the senior generation must create development opportunities for successors, gather

objective data and resist pressure for premature closure, but when it's time for them to be decisive, to make the changes work and to let go. For the successor generation, key virtues centre on learning during the preparation phase, patience during disengagement (this is the start of the transition, not the end of it) and collaboration during the exploration and choice phases.

Enfranchising the next generation

This process starts at an early age, says Alan Crosbie, chairman of Ireland's Thomas Crosbie Holdings, and author of a book on sustainability of the family business called *Don't Leave it to the Children*. His recommendation to the senior generation seeking to prepare their successors was to spend more time with the children, to watch them, listen to them and take on board their strengths, weaknesses and aspirations. But not to judge them; parents are bad at this. Instead, ask a trusted person to do the judging, bringing some objectivity to bear.

No matter how organised, strategic and controlling we are in running our family business, random and unexpected events happen

Conference chairman, Christopher Oughtred, of the Yorkshire-based food industry group William Jackson & Son, identified from personal experience the need to build connections between the young generation and the family business. The fifth generation currently runs William Jackson & Son, but generation six comprises 19 individuals where there was a danger of 'disenfranchisement' creeping in, so Christopher's generation organised a campaign to get them on board, with questionnaires, facilitators, meetings, retreats, education programmes and the establishment of a new Family Steering Group. Successful generational transitions depend upon engagement by the young generation, and this cannot be taken for granted.



Conference chairman, Christopher Oughtred: emphasised the need for connections between the younger generation and the business.

The conference also heard a case study on how not to manage transitions. A successor had been working in the family business for some 10 years – along with his brother-in-law who had joined at about the same time. It was clear that a transition trigger was approaching, but his father was unwilling to let go and had no firm succession plans. Someone advised the father to create two divisions in the company which led to the son and son-in-law being set against each other to see who would do the best job. The resulting family rift took years to heal.



Alan Crosbie: keen that the senior generation should prepare their successors by spending more time with their children.

Unpredictable things happen 'Be prepared for the unpredictable' was another message for conference delegates from Alan Crosbie. No matter how organised, strategic and controlling we are in running our family businesses, random and unexpected events happen surprisingly often, and we should never underestimate their impact.

If you're going to retire,
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Alan highlighted the example of the death of an MD's wife. It is very tragic personally for the MD, but it may also be extremely serious for the family business in that, more subtly, while she might not have been at the office every day, she may have been running the business with him, although nobody knew that until she was no longer around. And in the absence of his former partner, a formerly strong, decisive MD can become uncertain and start postponing decisions. Without a confidante, he may be lost.

So bereavement, divorce and other unplanned events can destabilise individuals and their working relationships, undermining best-laid plans, requiring sudden changes in direction and demanding unforeseen steps in order to ensure the continuity and ongoing security of the family business.

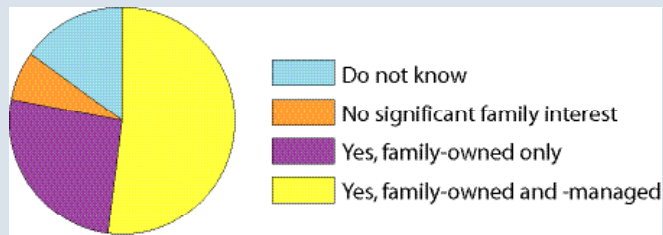
As well as being prepared for unpredictable events, family business owners need to strive to reduce uncertainty and remove the scope for confusion that can be so damaging for family firms. In particular, the number one rule when it comes to retirement is that, if you're going to do it, don't hang around the office. We all know of cases where the senior generation refuses to retire despite repeated promises to do so, and the frustration that's created by this type of contradictory signal.

Jonathan Bate, Professor of Shakespeare and Renaissance Literature at Warwick University, gave delegates a poignant example of the dangers of drawing up a retirement plan but not sticking to it. King Lear rid himself of all the responsibilities of office but continued to make executive decisions. He was so involved and tied up with the power game that he did not leave enough time for love and family matters, and this cost him dearly.

The family don't have to manage the business

This was a key message from the JPMorgan sponsored conference survey, where 26% of respondents see their families only having ownership roles in the future, leaving the running of their businesses to professional managers. Given that most delegates are active in the governance of their firms, the survey (administered by Professor Nigel Nicholson of London Business School) suggests a partial withdrawal of involvement taking place.

Do you expect your business to be family-owned or -managed one generation from now?



Equally indicative is the 7% who envisage complete withdrawal as shareholders and the larger portion (15%) who do not know. Putting these two groups together totals a quarter of the sample for whom family participation looks quite uncertain.

Education and training

Education is a virtue, but can lead to unpredictable outcomes. You'd think that young family members returning from Harvard with a business degree could only represent a valuable asset for a family business, but they can seem like a threat to the status quo and can frighten the senior generation when they start to look for change. Resistance often takes the form of, "It's not broken, why do we have to fix it?" and input from educated successors risks being perceived by a non-receptive senior generation as an assault. Viewing education as a potential negative goes against the grain, but it can be exactly that when a family business has not planned to engage in using new minds and concepts to challenge the status quo.

On the job training within the family firm can also have drawbacks, as was revealed in the conference survey. Preferred was a formal business education, and more favoured still was developing a career away from the family firm. This has many advantages, including helping individuals to develop an objective view of their own talents and abilities. Succeeding in a career independently and unsheltered by the family helps build self-esteem and confidence. Few things are more valuable to a young leader in

terms of establishing credibility and a reputation than having succeeded somewhere else and being recruited as a success. And, of course, the family firm will gain in the long run from the person's experience and objectively proven abilities.

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Successfully managing transitions is just one of the factors, but a very important one, that determines whether the family firm will continue to prosper and create wealth or decline.

The conference gave delegates plenty of useful pointers on best practices to adopt and how to minimise the risk of going from clogs to clogs and killing off the family business. ■

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