ifb next generation

Ready, Willing and Able?

The Next Generation in Family Business

Nigel Nicholson and Åsa Björnberg

London Business School

BDO Stoy Hayward

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Institute for Family Business

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Executive Summary

Any family firm that wishes to continue its existence as a family enterprise relies on the next generation. Yet, the paths that connect next generation members with their family business are not easy to tread – they are fraught with choices and challenges, largely unexplored in the literature. In this context, "Ready, Willing and Able" means choices about what kind of business the family wants to build, the role of the family in a changing enterprise, and the next generation's roles and careers in relation to the family and its business. This report is the first to draw attention to these important and difficult questions.

The research captures the variation and complexity of different models of next generation involvement through in-depth case studies of eight family firms, chosen to cover the widest possible range of family business types.

Our findings are rich and diverse. They are discussed around 13 themes, under three headings. Key conclusions are as follows:

A: Ties between next generation members and the firm

1. Emotional ownership. Regardless of whether the next generation (NxG) hold shares or work in the business, measures need to be employed that retain an emotional connection and avoid the possibility of damaging splits developing.
2. Inclusion vs. exclusion. It is important that formal and informal governance systems are developed to help avoid the family segment into insider and outsider groups that set their interests in conflict.
3. Perceptions of nepotism. Actual nepotism can be avoided by transparency and clear standards, but to counter inhibiting perceptions of nepotism, confidence building strategies and enhanced communications are needed.
4. Entry and involvement. This needs to be managed within the framework of an accepted model that fits the family culture and business needs, incorporating education and other processes to support adjustment.

B: Family relationships

1. Succession and intergenerational relations. There is a need for clarity about the process and greater awareness among the seniors about the NxG's perceptions and interests. Seniors need to be role models of good process.
2. Sibling and cousin relationships. To replace conflict with constructive challenge, there is need for higher shared goals, appreciation of the validity of different realities and communications that promote learning. Professional help may be needed to resolve deep-seated issues.
3. Conservative vs. liberal values. Different perspectives can help a firm keep in touch with the times, and underlying values do not have to be compromised by reflecting on and sharing differences.
4. The "difficult" person. Beware of scapegoating individuals for family wide problems, and work to repair specific relationships by avoiding blame and keeping communication lines open.
5. Family vs. business. If the business is destroying the family then bring in the

professionals; give the NxG an active voice in debates about the fundamentals of the family firm.

6. Spouses. Explicit policies about their role are needed; if excluded from the governance processes then other channels for information and involvement need to be devised.

C: Decision-making styles and process

1. Autocratic vs. democratic style. Norms of authority for one period may be less appropriate for another; there is much to be gained and little to be lost from practices that empower, involve and delegate to the NxG.
2. Procedural vs. distributive justice. Be aware that fair process matters as much as fair outcomes; accountability and transparency go hand in hand; high involvement strategies prevent later problems.
3. NxG involvement in governance. This is vital, and can be effected in several ways. The goal is to build capability, self-determination and choice, consistent with a strong values-led family business culture.

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We are most grateful for the contributions that have been made by the family companies that are featured in this publication. Their input has provided an invaluable insight into their families and their businesses and has allowed us a rare opportunity to understand the dynamics of their firms. Please note that for the purposes of confidentiality the names of the firms and individuals in all the cases have been disguised.

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Foreword

The IFB promotes the success and sustainability of the family business economy and one of the ways in which the Institute aims to achieve this is through education. A specific challenge that faces all family businesses at some time, if not nearly all the time, is managing the process of moving ownership and involvement in the business on from one generation to the next. This report is a valuable contribution to greater understanding in this area.

The ultimate objective of the report is to provide insights into the family business life cycle and help develop a language with which family members, and their advisors, can start to discuss highly emotional issues. What this research does not do is try to prescribe a solution. There is no right answer and, as can be seen from the case studies, there are many different approaches that family business owners can choose to take.

Bella Hopewell,
IFB Education Committee – Member

Introduction: A framework for the Next Generation Inquiry

The survival of family business depends upon the ability of families to build bridges spanning generations, allowing the uninterrupted flow through time of the qualities that keep a family firm distinctive and high performing. We know from research that family firms can achieve a substantial and sustainable competitive advantage through the infusion of "familiness" into their organisational culture. We also know that family firms are especially vulnerable to threats to their existence through failures of families to align their interests, either internally within the family, or externally in the linkage between the family and the business.

There is increasing variation in what family firms expect or want of the next generation. In some, there is still the traditional expectation that children, especially males, will be groomed and schooled for a significant role in the firm. Others seek to keep their children at arm's length from the business – they would rather they had no involvement at all but made their careers elsewhere. There are many varieties of next generation involvement between these two extremes. For example, in some the role of women is prominent and respected; in others inter-generational change is haphazard and ad hoc; while in others the iron fist of the founder continues to resound through the generations. As we shall see in all the case studies of this report, there is a powerful reciprocation between family and business that can make or break either. Families and business can be mutually enhancing, yet the business can destroy the family as readily as the family can destroy the business.

In the context of the family business, what does "Ready, Willing and Able" mean? It means choice – choices by parents about what kind of family business they want to build and what kinds of futures they wish for their children. For the business it means choices about what the role of the family in a changing enterprise should be. For the children it means choosing a role in relation to the family and its business. It is all very well for one of these actors to have a plan that affects the others, but quite another thing for wishes to come true. This is what makes next generation issues so important – they frame an interplay of forces that cannot be regulated solely by one party.

This report is the first to draw attention to these important and complex questions. It is written in a spirit of inquiry and problem-solving. Through these case studies we wish to uncover the variety of family business next generation issues, to extract key themes, and to consider the implications for action, both in each specific case and in terms of more generic issues around governance, succession, education and business development.

Our approach

Every family is unique with its own dynamic. Add the overlay of a business and you get a unique enterprise chemistry. The challenges and opportunities for the next generation are forged in this unique and complex confluence. Since there has been no previous systematic research on this topic we decided that the best strategy would be to sample as much of the rich variety of experiences as we could find. Therefore our starting assumption was that next generation issues are as likely to be as individual as is each family business.

This led us down the path of a multi-case method, selecting cases that would cover the widest possible range of family business types. We therefore constructed a matrix with firm maturity on one axis and firm size on the other. Each had three categories. Maturity: Owner-managed; sibling partnership; cousin consortium; Size: Small, medium and large (based on number of employees). We therefore sought nine companies to fill the cells of the matrix, assuming that family issues would be uniquely conditioned by these contrasts. In the end, we studied eight firms. The fit with categories is not exact, but as Table 1 shows, we did achieve the wide diversity of firm types that we sought. Within each case we interviewed a senior family member working in the firm and as many next generation family members as we could access from each family, including spouses – a total of 60 people in 8 firms[1]. In each case, apart from basic descriptive facts about the business and its governance, we gathered data on issues around family history and climate – especially around how close and cohesive is the family, how it communicates, solves problems and how authority is exercised internally[2].

Our belief – strongly supported by the present study – is that family "climate" strongly influences the choices of next generation members and their relationship to the business. This occurs through financial ownership, emotional ties, professional involvement in the business or just the chemistry of family relationships. In many cases one can see family patterns from earlier generations – both positive and negative – still alive and relevant in contemporary relationships.

Our ultimate objective in this research is to provide insights into the family business life cycle, such that elders, owners, leaders and the next generation are all better informed about how to steer the family climate in such a way that the legacy of the past is honoured, that sound stewardship informs the leadership, and that ownership is responsive and attachment to the business is responsible.

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[1]Readers who wish to have a more complete account of the methodology are invited to write to the authors.
[2]These concepts have been refined into a measurement tool by the authors.

PART I – Themes emerging from the Next Generation Inquiry

Some clear and near universal themes emerge out of the enormous diversity of experience we found among respondents and their firms. Let us briefly anticipate what these are, so that in each case study we can identify them and what they signify.

Themes cluster around three sets of issues: A) Ties between next generation members and the firm; B) Family relationships; C) Decision-making style and process. Each of these has a number of sub-themes.

A: Ties between Next Generation members and the firm

1. Emotional ownership

Much is written about ownership issues in family business. These are often complex and contested. It is often assumed that this is the chief factor in ties between family members and the firm. We find that there is an element of attachment that can exist quite independently of financial ownership – emotional ownership. Even for family members without a financial stake this can be very real and important. Conversely, even substantial shareholders may lack emotional ownership. Emotional ownership can be described in terms of varying levels of attachment, ranging from complete disconnection to intimate bonding. With this range of attachment stances come an assortment of consequences, such as responsibility, exclusion, gratitude, pride, secrecy and legacy. Emotional ownership may stem from a single family relationship – for example, between a son and a founder/father. This implies the possibility of emotional inheritance – emotional ownership (or its absence) being transferred across generations, perpetuating patterns of attachment to the family firm. In other cases emotional ownership is a much more general characteristic of the family climate.

2. Inclusion versus exclusion

A fundamental division in family firms often exists between those who work in the business and those who do not. There are also different interests for those who have an ownership stake and those who do not. In short, there are many different ways of being involved in the family business[3]. This makes possible many

[3]This is captured by the "Three Circles Model" of family business – intersecting dimensions of family, ownership and business involvement, see K. Gersick et al. *Generation to Generation* (Harvard Business School Press, 1998).

sharp distinctions, ways of forming alliances, and contrasting roles in relation to the business: in-laws and step-relations versus bloodline; direct versus indirect descendants; family branch versus family branch; owning versus non-owning members. Taking a role in the family business may mean being influenced by the group(s) you belong to, or the chance to draw on any authority that it gives you. The starting point for the next generation is always at the periphery of the firm. As next generation members mature as individuals, they face a free or forced choice to be on the inside or the outside of the firm. In this context, the needs of the group (business and family) can become pitted against individual needs – a polarisation that follows many next generation members throughout their lives.

3. Perceptions of nepotism

Being a family member working in the business often means belonging to what might look to outsiders like a privileged minority group within the business. The larger the firm the greater this perception may be, because family working in the business are a small minority. From the next generation family member's point of view, the sense that all eyes (both family and business) are focused on you can be an oppressive responsibility. It requires one to demonstrate one's worth at every turn. This may be no bad thing, but perceptions of nepotism (whether real or imagined) can be corrosive and anxiety-provoking. Next generation members in our sample tell of the experience of having to deal with such perceptions.

4. Entry and involvement in the family firm

A key issue is how the next generation members join the family business in a professional capacity. The mode and level of entry varies greatly from firm to firm, but also from member to member within the same family. These differences can be viewed in a number of different ways, including degrees of formality/informality in how members are introduced, the amount of preparation they are given prior to joining, what are their prior expectations, and how are they integrated once they have joined the business. We also explore reasons why some next generation members reject all opportunities to enter, depriving the family firm on occasions of valuable human talent.

B: Family relationships

1. Succession and inter-generational issues

Succession between generations is generally regarded as the most perplexing issue facing family businesses. The success or failure of succession often rests on the quality of relations between elder and next generation members, especially around authority, frustration and coping with disparities of experience and power. This is also often the crucible in which emerging leadership is forged – early experiences of taking leadership roles, cementing one's position and bond with the business, and developing one's own professional style with confidence. Succession is not just about management roles, but also about what it means to be a responsible owner. Father-son relationships are often the chief axis for succession issues[4], but as we shall see here, father-daughter relations can also be critical.

2. Sibling and cousin relationships

Relationships within the next generation are also mixed in their form. Siblings may be bitter rivals or close collaborators. We shall be illustrating both. Splits and rivalry are primarily related to dominance, access to resources (such as positions or shares in the business) and/or status in the family group. On the other side we also find siblings providing mutual support, particularly when one sibling experiences his or her relationship with a parent as difficult. We refer to this as *sibling alliance*. These relationships often change in step with other family developments, such as altered status of the parents, death of family members, divorce, etc. Cousin relationships tend not to be as competitive, and indeed, we found almost no examples of enmity among cousins in our sample. Their more dispassionate approach is partly because they have not had to compete with each other for parental resources or attention whilst growing up and because usually there are no shared direct links to the business founder or leader.

3. Conservative versus liberal

Families differ in their ideological climate, i.e. whether they embrace diversity and change, or whether they prefer stability and tradition. The degree to which they tolerate difference is a fundamental issue in family firms. It relates to how effectively the family and business are able to adapt and be inclusive. In our sample, families as well as individual members vary in how progressive/tolerant or traditionalist a stance they take when, as often occurs, the next generation presents the challenge of a new and different view of the world. The most frequently occurring "differences" in these cases were associated with gender and sexual orientation. Examples highlighted in our cases include several to do with the role women as professionals in the family firm, and one in which there was controversy around homosexuality.

4. The "difficult" person

It often happens that one person becomes the natural target for the disgruntlement of the rest of the family. This may happen because one individual for various reasons deviates from the norms the rest of the family have accepted, but often this is not the deeper truth about the family. The underlying cause may be that family members are discontented about various personal issues or concerning the overall family dynamic but are unwilling or unable to express their

[4]See Björnberg, A., & Nicholson, N. (2005) *Family Business Leadership Inquiry*.

feelings collectively. One family member, because of some attribute can become a magnet for this discontent; in extreme cases becoming a scapegoat for the ills of the family. This theme appeared in our sample.

5. Family versus business

As two partially integrated parts of a greater system, the family and the business have needs that may diverge and sometimes clash. A common focus of this is the issue of work–life balance. Many young family members of family firms recount their experience of an absent father, in more than one case where they felt his presence was needed at home, whereas he had decided that the best way to serve the needs of his family was by giving priority to serving the needs of the business. One can understand the desire to store up wealth for the financial needs of the next generation but this may not turn out to be what is most important for their ultimate well-being and success. Next generation members are often deterred from working in the family business, having observed their parents put in endless hours. They may prefer to have a more balanced lifestyle. At the most fundamental level this resolves to a stark choice about what is most important – family or business.

6. Spouses

The role of spouses is particularly acute when it comes to ownership succession (and to some degree leadership succession). Mothers and fathers of *future* owners of the family business who are not owners themselves and have little voice in the family business system may still feel very strongly that they have to protect their children's interests. In this sense, they play a crucial role in terms of emotional inheritance and providing stewardship that creates the family legacy. For the next generation they can supply a much needed alternative view of family life, with their perspective as in-laws rather than blood relatives. Spouses also, of course, have a key support role for male family business owner-managers and leaders, sometimes as active partners in running the business.

C: Decision-making style and process

1. Autocratic versus democratic style

How power is exercised within a family is critical. This is one dimension that has a major bearing on next generation involvement, which often comes to a head in relation to succession transitions. It may also be relevant in sibling relationships, particularly when the age gap is great and the elder sibling has taken on a leadership or surrogate parent role in the family. Several of the emerging leaders in the next generation describe their fathers as having an "autocratic" approach, whereas they and others see their generation as more "democratic" and “consultative”. This is not confined to owner-managed businesses. Being consultative may be a pragmatic response to inexperience, but more commonly it is the inclination of members who by their nature are more people-oriented and have more finely tuned “soft” skills.

2. Procedural versus distributive justice

Justice matters a lot in family firms, but it has more than one meaning. There are two kinds of justice that represent what is probably the most important distinction among people’s concepts of fairness. Distributive justice concerns how fair people perceive their share of benefits or penalties to be in a situation, regardless of how equal the outcomes may be. Procedural justice is the equally important question of how fair is perceived to be the process by which any decision is arrived at, including resources and opportunities. Again, procedural justice is quite independent of how equal or unequal the result. People will accept inequality if it is perceived as just and arrived at fairly. For the next generation, procedural justice is especially important, for lacking power they often want at least a voice that will be heard and recognised by the decision makers. Justice links with issues of leadership and authority in the family and the business. Being part of the decision-making process and seeing that justice is done are often more important than controlling the actual outcome. Having a chance to provide input may matter more than getting a stake in the output. This can relate to a variety of family business issues, including succession planning, opportunities to work in the business, and of course ownership divisions and access to capital.

3. Next generation involvement in governance

Governance mechanisms and practices play a significant role in the next generation’s orientation to the firm. An important role of these systems in family firms is to support the clarity and unity of the family “voice” in the business, drawing upon the values of the family in the formulation of strategy. But they can have an additional function – as a conduit and facilitator for involving next generation members in the affairs and interests of the business. Boards often play a part in guiding succession and other processes, such as training next generation members for a variety of roles, including non-executive positions in the business. As family trees become more beanpole-like in structure (thinner and longer) due to greater longevity and smaller families, strong external input will be increasingly needed. These conditions pose fresh challenges for what next generation members may do to be more effective and fulfilled in their relationship with the business. This includes, for example, the knowledge base and personal skills necessary to be an active owner, possibly sitting on the board as a non-executive director.

PART II – The cases

In the pages that follow you will find the themes outlined in Part I emerging in different ways. In each case we provide at the start a chart summarising key facts about the business, and our summary of some of the issues around family climate and culture. Readers should note that because of the sensitivity of the case material we have preserved confidentiality by disguising the identity of the firm and its individual members. We are also mindful that there are multiple realities in cases such as these – one person's view of the same events may diverge radically from another's. We try not to judge right or wrong in such cases but to follow the aphorism:

If something is perceived as real it is real in its consequences.

In other words, we try to summarise the views expressed to us with balance and objectivity, whilst recognising that this may be partial and incomplete. This qualification is important also because not every family member was willing or able to speak to us about these matters.

Table 1. The participating family businesses of "Ready, Willing and Able?"

Case study	Type	Generation	Size (employees)	Turnover
Transco	Owner-managed	G1/2	60 – small	£2.5m
Specialist Metals Group (SMG)	"Recycled" owner-managed	G1/2	125 – medium	£22m
Services Firm	Sibling partnership	G2	10 – small	£0.6m
Manco Ltd	Cousin consortium	G5/6	50 – small	£3.5m
Holdings Co	Sibling partnership	G3	1,400 – large	£243m
Financial Services Ltd	Sibling partnership	G2/3	2,800 – large	£500m
Property Co	Cousin consortium	G4	800 – medium	£48m
Manufacturing Co	Cousin consortium	G4	1,250 – medium	£39m

Case 1: Transco

Summary

Category: Small owner-managed
Turnover: £2.5 million
Number of employees: 60
Industry: Transport

The next generation situation – characteristics at a glance:

Support structures for the NxG: Limited	**Development stage:** Owner-managed (G1/2)
NxG ownership: G1 owners transferred shares a few years ago to all next generation members	**NxG professional involvement:** Dense
Issues of succession: Letting go, defining the successor	**Family cohesion:** Medium to high; cohesion throughout
Sibling rivalry: Currently negligible **Sibling support:** Present	**Family incident:** Illness of the founder a few years back
Inclusion vs. exclusion: Predominantly inclusive	**Emotional ownership:** High to very high
Inter-generational authority (power distance): High **Other family dynamics:** Open communication; group decisions with clear leadership	**Other issues:** Lack of formal education; work–life balance and meeting the expectations of the founder; professionalisation and role clarity; pressurised environment

We spoke to three next generation members: Phil (29), Robert (30) and Charles (30s). Robert has GCSEs and a number of professional competence qualifications relating to transport. In his role as a director, there is more to learn and more experience to be gained in terms of leading the business, and he defers to father in this regard. Charles opted out of school and started working at age 15. In terms of development needs, Charles mentions accountancy and finance as being the most immediate. Phil has a national diploma in computer programming. With regards to his future career, he sees it as an open question, but related to the family business.

For all three next generation members, the most imminent concerns with regards to the family business are 1) the succession planning of the founder, *2) gaining skills for the business, 3) recruiting professionals into the business and 4) the work–life balance of the founder, and how this relates to his health. On a more individual level, Robert is faced with being compared to his father, and finds it hard to develop in his own right. One of Phil's concerns is living up to the expectations of the founder, and Charles highlights the need to bring in professionals to the business.*

Transco is a small owner-managed family firm founded in 1970. Operating in a niche in the transport market, the company has grown to £2.5 million in sales revenues and employs approximately 60 people. The business is expected to continue growing over the next five years, albeit more slowly. In the last four years, the company has trebled in size along with an increasing degree of next generation involvement in the business. This has led to challenges of growth being experienced in the company as a whole.

Board composition and governance arrangements

The company consists of a limited company and a holding company, the latter primarily investing in property. Support structures for the next generation are described as *limited* at this stage in the company's development.

The board of directors comprises the founder, his two sons, son-in-law and his daughter and wife. Board members are also shareholders in the company. A few years back, the founder, Sam, passed ownership on to his children and son-in-law, simultaneously appointing them as directors.

Level of involvement of the next generation

Transco has three members of the next generation in the family on the payroll, and thus a rather dense involvement: the founder's son, adopted son and son-in-law.

Robert, the son of the founder, describes his path into the firm as "expected", but also something he wanted. His participation in the family firm reaches far back in his childhood. He recalls answering the home phone in the company's name as an early experience.

Phil, the founder's adopted son, joined straight after college at age 17, after having responded to an advert in the local job centre. He worked at Transco for four years, and returned after a four year spell in an engineering company. Charles, the founder's son-in-law, joined without the backing of his wife , who *"grew up with the business in her face"*. Having experienced her dad's absence due to long hours and endless amounts of work, she feared that their relationship would be affected. He began his work at Transco six years ago when Sam approached him to ask if he wanted an opportunity. Sam's other option at the time would have been to sell off the business because he could *"never find somebody to trust"*. Charles assumed that his reason for joining was to help Sam retire and duly joined. However, this assumption was erroneous and resulted in Charles making Sam feel as though he was being pushed out of the business. The misunderstanding was subsequently cleared up.

The owner-managing captain

> *"No business comes from nothing."*

Transco is fundamentally a creation from the labours of one man, his endlessly long hours and unfailing determination to realise his vision. The picture that emerges is of a family business very much dominated by the founder – his knowledge, experience, view of the world and how to act in it. The company is the founder, and he steers the ship.

Critical incident in the family

Not long ago, an incident occurred that brought a harsh reminder of the founder's mortality – serious illness struck Sam. Although he has since recovered, this vulnerability is now very much in the minds of the next generation. Work–life balance is brought up as a recurring theme among those who witnessed the *"workaholic"* style of their father and the consequences for his physical health. More than one professed that they *"don't want to work 16 hours a day"* but need time for their home life as well.

Under the wings of the founder

Although Sam is described as having heroic qualities, and is an admirable mentor in possession of vast amounts of wisdom and experience that can stimulate your mind, he is also quite dispassionately described as being demanding, old-fashioned and overly hands-on.

> *"He knows everything about everything…He challenges me. I try to get out as much as I can from him – life is short, it's not long before you pop your clogs. There are not many people like him.*
>
> *Sam is extremely old-fashioned, 'do it yourself'. Spends so much time on [small issues] that should be delegated…[he'd] stay till the end of the night [rather than get people in]. For example he told us the other week that he could run the company by himself, single-handedly – like Superman. His attitude [is] 'don't trust anyone'. [I have] exactly the same attitude and I criticise him but my errors are the same." (laughs) (G2 member)*

Although the sons enjoy very close relationships with their father, at times it appears as though they have to compete with the company for their father's attention. For example, the company is described as another sibling:

> *"…(laughs)…I wish you knew my family – because my father is the founder, [the firm] is his baby, born by [him]. I'm dealing with that." (G2 member)*

Clones of Sam

The next generation of brothers have been trained by Sam to the extent that some of them referred to themselves as his "clones". Next generation members not directly related to the founder reported feeling this to a lesser extent, seeing themselves as emerging in their own right rather than in the shadow of the founder. This was not true for other members, who were more conscious of their individual contribution.

Work–life balance and expectations

Sam's *"workaholism"* has undoubtedly created success for the company, but the expectations on the second generation can be difficult to handle.

> *"…[We could] never meet his expectations – the sheer amount of hours. The proof is in the pudding, the increase in [turnover] and size of fleet…but not how many hours. First generation owners never waste an opportunity. Seven days a week – I don't believe that a man could work and keep the standards, somewhere its affects health, home life or quality of input." (G2 member)*

Superman – super pressure

The pressure that Sam puts on the next generation or the company is negligible compared to the pressure he puts on himself – even after having faced serious illness. This mode of operating, geared towards survival, is a relic of the early days, when this level of input was a matter of business life and death and one's ability to put food on the table.

Family cohesion

> *"It's nice to be around someone who means so much to me on a daily basis... Funnily enough, even when he turns me off I quite like it…he is my friend as well as dad and boss. Lucky, aren't I?" (G2 member)*

The family comes across as very close-knit, loving; people who have a lot of respect for each other, and like to be together. Their communication style is open and straightforward, and their business attitude is equally down-to-earth. These dynamics appear to have been instrumental in helping them cope under the pressure we have described.

The downside of such tight family cohesion is that a large portion of family intercourse takes place in a space that does not differentiate work from family life. We were told that the family socialises constantly, yet when they do, most of this time is spent talking about the business. A few years ago, the family is said to have socialised much more, but are now *"victims of our own success"*. For example, Sam and his wife bought a property abroad that has never been used.

The meaning of ownership

For one member of the next generation, ownership is strongly associated with succession of power and decision making. In this person's view, Sam would never step down from being the *"captain"* until he is physically unable to continue. Until that day, everything has to be run through him and key decisions are ultimately his alone: *"…and that's how we like it – only one man, one captain."*

Ownership has a different meaning to another member of the next generation. In this case, the main issues are trust and belonging. The way in which shares were passed on from the founder to the next generation – all at the same time, and with directorship and ownership status coinciding – created a strong sense of involvement between the family and the business. For this member, the meaning of ownership was felt at a very deep level of relationship, particularly with regards to Sam:

> *"I hold Sam in extremely high regard – you have to earn his trust, he does not make flippant decisions – that he would trust me enough to [be an owner] gives me an adrenaline rush – that confidence within us. I don't look at it as ownership – I look at it as the key to be in the team." (G2 member)*

Ownership and wealth are here synonymous with enjoyment of the work and the relationships it brings.

Succession

Succession, and even the death of the founder, is a topic that the family seems to communicate openly about, yet paradoxically, a lot is left undiscussed on this topic. The biggest issue will be who takes it forward amongst the siblings:

> *"When Sam dies there will be more people at the top – somebody to take that position [as] adjudicator – one man can only take one decision." (G2 member)*

Whilst it is clear that Sam has the final say, the approach to both ownership and management is described as heavily team-oriented, involving all parties early in the decision-making process, whether the issue is small or large.

Working relationships

Two of the next generation members, Phil and Charles, work very closely together, and over the years they've learned how to balance their different traits; one's calm, soft and trusting touch counterbalancing the other's hardness, nervousness and cynicism:

> *"[He] is the nicest person; he trusts everybody and is laid back. Works fantastically well – bad cop good cop…[We're] shockingly far apart. Dad and I are similar – he wouldn't admit it – he trained me, I can't help it – he moulded me." (G2 member)*

Overall, rivalry among next generation members appears to be present but not disruptive. For example, initially, when he joined, Charles was concerned not to tread on Robert's toes, and found his attitude highly supportive of his entry.

Roles and professionalisation

When asked to describe their roles as directors in the company, answers are given with varying degrees of clarity, for example:

> *"…no-one can clarify, the roles are so diverse here, I couldn't describe – you get on with it." (G2 member)*

This model is based on Sam's hands-on approach. However, his preference and ability to carry out his tasks with this role diversity builds on an experience that the younger generation lacks. Consequently, younger generation members become dependent on him as a provider of answers and tacit knowledge; typical of an owner-manager.

Yet there is some ambivalence and resistance about this state of affairs:

> *"First generations never stop; they die working. [Better to] work with them and get the most of the relationship. I'm trying to expose myself to problems myself – [but instead I should] just ask him for advice – 'I've been through that, I can tell you'". (G2 member)*

Although beneficial in terms of gaining a rounded business experience, having an undefined role with apparently limitless scope can be stressful. Demands come from every corner of the business, and when everyone has to "muck in", time-management can be tricky.

Professionalisation and people management

The next generation has recognised the importance of employing the correctly qualified people and creating an intermediate level of management to free them from overly operational involvement. One of the biggest issues identified by the next generation is handing certain responsibilities over to other professionals to allow the management to do *"what they're good at."* However, this is a contentious issue:

> *"…the old school mentality…they believe they can do everything 24/7 – not getting away from work…a different view on life [working] 12–16 hours a day. I can appreciate why – they've been hungry in their life and don't want to be hungry again." (G2 member)*

It is not easy finding the right people to do the work you require, let alone trust them with the company you've toiled and sacrificed so much for. As one of the next generation members puts it – *"it's like asking someone you don't know to baby-sit your child"*. The founder's need for control was a great asset when starting a firm, however, it can become a liability when growing it, or handing it over to the next generation. In the case of Transco, the situation has led to a classic polarisation between the first and second generations.

One member told us what was needed was the introduction of an independent director as a good way of including some outside influence and wider business experience into the firm, as well as balance into the decision making.

Lack of qualifications

Connected to the above issue is that the next generation profess to be lacking in professional qualifications and knowledge in certain areas, such as accountancy. They describe themselves as not coming from a qualified background, but having built the business "the hard way". Members of the next generation are already looking into options to compensate for these gaps, via courses or coaching. However, finding the time to do so is proving difficult.

Commentary

In this case, the key issues are associated with inter-generational relationships in the business. First is succession planning, which is compounded by many other issues. Second is conservatism and the challenge of tolerating difference in families.

Succession from owner-managed status to sibling partnership

The circumstances that influence succession in companies like Transco are mainly to do with family development stage, and the challenge of transiting from the owner-founder to the sibling constellation. The growth of the business strongly influences the circumstances of succession. A number of related issues feature here: lacking qualifications, role clarity, professionalisation via non-family managers, the predominant leadership style and work–life balance. On top of this is the pressure that builds up from the sheer complexity of the demands emanating from the business.

A number of push and pull factors are visible. The departure of any powerful owner-manager leaves a void. Fear of this can actually detract from succession planning. This is compounded by the "captain's" reluctance to conduct open succession planning. In this particular case, there seems to be a general resignation to the expectation that Sam's death will mark the end of his leadership. Retirement is not an option.

Meanwhile, business needs are pushing for changes, which often occur at this point in an ambitious founder's life cycle. The business is on a steep growth curve, and in need of more formal systems to manage its activities. Another push comes from the next generation, who have identified some necessary changes and are getting ready to lead. Sam, the founder, is resistant to these changes, as they are an unwelcome reminder of his mortality. Yet it clearly is unsustainable to be so reliant on a single individual in a fast changing and increasingly complex operation.

Last, health issues may also be part of the equation. In the case of Transco, they constitute both a push and a pull, inasmuch as the family wants Sam to slow down, but Sam himself has a need to uphold the "Superman" image, especially after having gone through serious illness.

With all this complexity in mind, a family in this type of succession situation needs to consider the following tough questions:

- When will the residing generation retire, and what will be the consequences of them not retiring?
- What would be the post-retirement future role or portfolio of activities that would occupy the retired founder?
- What skills do the next generation require, and how will they acquire them?
- Will it be necessary to appoint an interim non-family leader?
- How will the new leader be chosen and on what model? Will there be a single leader, or a co-leadership model, sharing responsibilities between siblings?

- How can the new generation tap into the tacit knowledge of the current generation? Will there be a formal handover phase?

Tolerating difference

The challenge for many young generation members is to develop their own leadership style. This needs to balance fidelity to their own unique identity whilst conserving elements of proven value from the founder's era.

In the psychology of the family, there are forces, conscious and unconscious, encouraging the recreation of the parent's image in his or her child. These are guided by a desire of children to possess the knowledge and power of their parents, and by the parent's desire to perpetuate their life's work in their children. Pulling in the opposite direction are the countervailing values brought by a new generation that urges on each the importance of developing their independent style and character.

References to "cloning" in the Transco case are particularly salient in this context. Being compared to one's parent in a work context can be both gratifying and daunting. However, being a copy of another person does not come without sacrifice to one's own character. Although it is good to have a role model, "cloning" can be an obstacle towards the next generation finding their own style in relation to the business. This is not to say that similarities should be denied. Nor does it mean that the next generation should refrain from using their parents as role models or adopting best practice based on their experience. However, the difference that comes with each unique personality and skill set needs to be recognised and utilised. That way, the organisation will be better prepared to progress, and runs a smaller risk of stagnating or becoming blocked. Achieving this is the responsibility of both generations.

Case 2: Specialist Metals Group (SMG)

Summary

Category: Medium "recycled" owner-managed
Turnover: £22 million
Number of employees: 125
Industry: Supply and marketing of metal products

The next generation situation – characteristics at a glance:

Support structures for the NxG: Limited to emerging	**Development stage:** Complex/combined development stage – an owner-managed company, with features of sibling partnership and cousin consortium (G2)
NxG ownership: No shares, no trusts	**NxG professional involvement:** Dense
Issues of succession: Lack of clarity, exclusion of non-core family member	**Family cohesion:** High; Strong cohesion
Sibling/cousin rivalry: Negligible **Sibling/cousin support:** Strong	**Conservative vs. liberal (tolerating difference in families):** Evidence of different leadership styles
Inclusion vs. exclusion: Exclusion present	**Emotional ownership:** High emotional investment
Inter-generational authority (power distance): Low to high, varied perceptions	**Other issues:** Next generation preparing for role as non-executive directors; work–life balance and meeting the expectations of the founder
Other family dynamics: Members from two family branches involved; father-daughter clash in the past; differences between core and non-core family members	

In this case we interviewed four next generation members: Janet (29), Ashley (26), Joanna (22) and John (30). Janet has a Masters in archaeology, Ashley has a Bachelor with Honours in fashion marketing, Joanna and John both have A levels.

The most pressing issues voiced by this generation are 1) ambiguities and

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[5]This is the term given to firms that move back to an earlier life-cycle stage of the family firm; e.g. where a next generation member becomes the sole owner-manager through a buy out.

uncertainty surrounding the forthcoming leadership succession, 2) the founder's work–life balance, and how this affects his leadership style and 3) the exclusion of non-core family members in the succession discussions. Individual needs and concerns of next generation members are as follows: Janet wishes to develop her commercial skills for her role in the business; Ashley sees her role as providing support for her sisters and cousin, and is trying to learn more about the company; Joanna is still finding her feet in terms of her career; and John is considering a range of opportunities inside and outside the family business in terms of his career.

Specialist Metals Group (SMG) is a medium-sized firm specialising in the supply and marketing of metal products. Turning over more than £22 million, this group of companies has a growth in excess of 10% per annum. It employs approximately 125 people across the UK, and has offices in three additional countries. The company operates in a niche market producing large scale equipment at the top end of a sophisticated product market.

SMG's history stretches back to the 1800s, when the family business operated in a different industry altogether. In the 1960s, the company completely reinvented itself, when it began dealing with specialist metal materials. As he describes since Richard took over, it has grown significantly.

"…it used to be a 'lifestyle' company for my father and brother – shooting, going to the pub – but I was driven, I wanted to grow the company."

Despite the long history of the company, it is in its second generation in its current form, with Richard as its founder. However, due to dense involvement of the next generation, it features a unique blend of characteristics of an owner-managed firm, a sibling partnership and a cousin consortium. Ownership is divided between the founder, the MD's wife and a non-family director (who is soon expected to sell his small shareholding back to the company). The founder's three daughters have no ownership, and there are no trusts. Instead of providing share ownership, the MD has chosen to invest in properties for the daughters.

Board function and structure

SMG has a two-tier board structure. The main board consists only of non-executive directors plus the MD: an independent non-family director (and godfather to the daughters), the founder's wife and the eldest daughter in the family. The operational board oversees the company's four areas – financial (including sales and distribution), export, personnel and production facilities/technical. There is an external advisor chairing the operational board, who was brought in to help the board improve its teamwork.

Support structures for the next generation

Supporting structures for the next generation can be described as *emerging*. Planning for the next generation has only been initiated fairly recently. Meetings have been held with family business advisors, and the company is currently considering creating either a holding company or a family council. Apart from formal and informal discussions regarding succession held in the nuclear family, the MD has taken steps towards creating structure that can keep options for leadership succession open.

Level of involvement of the next generation

Despite the fact that the three sisters live in three different countries, family involvement in terms of the next generation is rather *dense*. Janet, the eldest daughter, has been working on and off in the family business since she was 15–16 years old, with breaks for higher education and other work. Her roles were various. She was approached by the founder for her current role as technical and sales manager, which is carried out overseas. Janet also sits on the main board as a non-executive director.

Ashley's role is less active, involving market research into the potential export market for SMG in the different country she lives in. Her role will possibly expand as that market matures. Ashley has not attended an AGM until recently, and she is preparing herself by sitting in on board meetings.

Joanna, the youngest sister, joined when Richard approached her regarding an opening in an internal sales team. She now manages that team, and combines her duties with part-time work as a personal assistant to Richard.

John approached his uncle (Richard) and began working his way up in the company, starting on the factory floor aged 21. To prove his worth to his uncle, he spent evenings learning the databases, and progressed in various areas, and is now working in the export department.

Early memories

Memories of growing up in the family business are both positive and negative amongst next generation members. One of the sisters remembers how she used to come in and chat, use the computer, spend time in the reception:

> *"…when I was eight after school every day hang around – answer the phone and that kind of stuff." (G2 working member)*

In fact, the family lived in the office premises in the family mansion for one year, which was a positive experience for her. Although her parents travelled a lot, she does not *"resent the family business."* The absence of the father is also remembered as his personal choice, and how *"fantastic"* his devotion has been for the business.

Not all memories of the business are good. For some, letting go of bad memories seems to have been more difficult, and these still influence the present. The *"workaholic"* behaviour of the founder, as described by the next generation, and his explosive temperament exemplify this:

> *"In board meetings [it has happened] that he's shouted – 'you don't even work 12 hours a day!' As if that's a bad thing. It's taken time to get over that. Did try it [working less hours] for a while and got miserable."* *(G2 working member)*

Other memories of the business from an early age revolve around a grandparent who was involved. These memories are positive:

> *"[It was] more of a lifestyle business back then – the family business then was nowhere near where it is now. Growing up, I enjoyed it tremendously…great fun." (G2 working member)*

Succession

Planning for the next generation is becoming increasingly imminent, and the next generation feels that certain discussions have to take place now. At this point in time, succession planning is purposely left open and *"nobody knows what's going to happen"*. It is felt that Richard *"[needs to give a] clear answer about what has to be done with the company."*

> *"Perceptions (regarding who's involved and not involved) have to be dealt with very soon [at the moment we] skirt around them. Discuss now – not in five years time [as it will] raise its head in the next two to three years." (G2 non-working member)*

In the immediate family, there seems to be a concern that *"something might happen"* to Richard and that precautions must be taken. The non-family independent director was mentioned as the person who will take care of them if the need arose.

The steep growth of the company, Richard's long hours, the perceived lack of work–life balance at the top and the tender age of the next generation have fuelled a general reluctance among the next generation to contemplate taking on the leadership. Hence there is no obvious direct successor at this point.

Richard comments:

> *"[We are] putting in place a team which will allow the family to take up what ever option it wanted – don't think any of my girls want the lifestyle I have – travelling, commitments. [I'm] not workaholic but it is a huge hobby. It has its down and upsides."*

The next generation are unanimous that regardless of who is running the business it will remain family owned and that the family spirit will be protected via family involvement in governance. From this it can be interpreted that succession of ownership and leadership are likely to take different routes in terms of family involvement.

The estranged cousin

The assumption underlying the succession planning is that "family" is restricted to the immediate nuclear family, which includes Richard, his wife and daughters. This is related to the company's development stage and history. It acts as an owner-managed company, but carries features of more advanced development stages. It has a family legacy and memories that stretch further back – including those of the cousin.

The next generation voices a concern that the cousin has not been involved in discussions regarding succession. In this matter, the outcome of any succession planning is less relevant than the process leading up to it, which should be characterised by procedural justice – i.e. fair process:

> *"My cousin worked for ten years, and [he has] no involvement in the succession planning. Personally I think he should have. My sisters and I are close to him, we find it difficult – several people don't see him as a direct descendant of [Richard]. It is a difficult subject. Not [necessarily for him to be] involved in running the business…But be involved in the process – he earned that right." (G2 non-working member)*

Emotional ownership

This case highlights the significance of emotional ownership. On this level, the cousin's investment appears substantial, in years of work put in and family legacy dating back to early years. As direct descendants of the founder, the sisters' prospects regarding future ownership are quite different from those of their cousin, although none of them currently holds any shares in the business.

Interpersonal dynamics

Family cohesion and sibling support

Family cohesion and affinity has been reported as high. Sibling and cousin dynamics testify to a high level of support, suggesting a spirit of *sibling/cousin alliance*. For example, Ashley sees her main task in relation to the family business as supporting her sisters:

> *"I'm expected to support my sisters. Very happy to do that as well…we both need me wanting to be involved and wanting to know what is going on…"*

Another sister comments that her cousin is *"more like a brother"*.

Daughter-father relationship

In terms of personality traits and style, there are perceptions of overall similarities. However, the similarities have sometimes led to turbulence, particularly with regard to the relationship between one of the daughters and the founder. They found themselves regularly clashing when working together – both having strong wills and similar technical orientation, but a different approach to authority. The "daughter-employee" and "father-boss" lines were reported to have been crossed many times. Fortunately, the working relationship has improved greatly since the daughter relocated to work for the firm in another country.

Work–life balance and expectations

While there may be no explicit expectations on the next generation that they should work 60–70 hours per week and grow the company to a multi-billion dollar empire, the role-model they have been exposed to is fairly clear. However, their orientation is explicitly towards maintaining a balance between work and home-life, and Richard is *"comfortable with what they want."* A comment from the next generation highlights the difference in approach to work–life balance:

> *"Certainly there is a work expectation and a work ethos – [Richard] is a stereotypical workaholic; directly driving the profitability and long-term progression of the company. However, work effort and financial situation are not directly linked. I'd envisage brand of loyalty trust and partnership… expected to maintain that in the future – warm atmosphere [where people] enjoy coming to work – make that a priority." (G2 working member)*

Others say that Richard's long hours are not as efficient as they might appear, that his input is *"60% [effective] and 40% questionable – then he looks down on people who don't work that long."* According to this view, his life revolves entirely around business undertakings, and he is not likely to step down until he has reached the end of his ability to contribute.

Perceived nepotism

The issue of perceived nepotism also forms part of the expectations mentioned by the next generation. Individuals reported the need to set an example and work harder than non-family members. For example, when Joanna joined the business, employees assumed that she had in-depth technical know-how of the business, purely because she was a family member, whilst in fact her knowledge was rather limited. Informants also mentioned it is challenging to know when it is OK to question decisions as a family member, which could possibly be perceived as encroaching on other (non-family) people's territory. It is perceived that the management *"does feel threatened by family members"*.

Future direction of the firm according to the next generation

A number of strategic directions were suggested by the next generation, including diversification into specific technical areas and expansion into other countries, in a strategy that would include extending its partnerships with universities and other institutions. This, they felt, would help develop the next generation of professionals in the firm and achieve robust product development.

Next generation members believe that the past ten years' growth is a direct result of Richard's desire to succeed. In addition, core personnel within the company helped make this – having them on board ensures that structural changes do happen. Significant amounts of money are ploughed back in to the company, and there is a vision of individuals sharing the profitability of the group.

The founder *"has to prioritise on what he wants to do, he needs to start delegating more – [he's] spending time on things he shouldn't – running the company from a top level down"*. This has improved substantially in recent years. For example, management teams have been brought in, and it has become clear that Richard will leave a "void" behind him as some had feared. This means the family can continue planning for the future, and address the succession issue.

The family's role in setting the direction of the company was also mentioned. There is a shared commitment to remaining family owned, and to continuing to instil principles of *"truth, integrity and honesty – if you take that away you take away the potential success."*

Commentary

The SMG story highlights a number of key issues, including: 1) work–life balance; 2) distributive versus procedural justice; 3) autocratic versus democratic style.

Work–life balance

When a company has been run in a certain way for a long time, it is not surprising that assumptions are made about how it should be run in the future. In the case of a rapidly expanding company such as SMG, many hours of toil must be invested. As we have seen, this requires a remarkable leader with extraordinary energy. Witnessing this "workaholic style" can deter next generation members from engaging with the company or seeking leading roles. But are there other viable models? In this case, a return to the "lifestyle" model seems hardly likely, but perhaps there is a more flexible option between these extremes.

It is also important to ask: what expectations are there in the family in terms of the company achievements after the succession? The answer to that question is a key to guiding the choice of leadership successor and long-term strategy.

Distributive versus procedural justice

An interesting point regarding procedural versus distributive justice is raised in this case. It was said that, regardless of the outcome, the cousin should be included in the succession discussions. In essence, the procedure of decision making requires a lot of sensitivity and attention. If that is practised, people are likely to be more supportive of the outcome.

The issue of procedural and distributive justice is closely linked with inclusion versus exclusion in this case. It raises another question: What rights do family members/employees have who have no ownership and little apparent prospect of ownership? In other words, who is "in" and who is "out"? How do we define "family"? There are no right and wrong answers here. What matters is that there is an explicit discussion and agreement on such basic issues so that people can relate to them with no risk of misunderstanding.

Autocratic versus democratic style

Partly rooted in personality, and partly in experience and authority, the notion of an autocratic style is often mentioned among the younger generations in family firms.

Inter-generational relationships have an in-built bias towards parental dominance, since parents are de facto family leaders. It also is relevant to sibling relationships where older siblings often wish to dominate younger siblings, though here it is also dependent on age gaps and other factors. When children reach adulthood, the leadership/dominance configuration changes, and parents need to adjust their style to accommodate the growing independence of the next generation.

All of this is subject to variation in the personalities concerned. Some people have a stronger need for dominance and a greater desire to take the lead in decision making. When two dominant individuals are in the ring together, it requires self-restraint or third party mediation to avoid potential clashes. Being forced to cooperate in a professional setting and simultaneously manage the family–business boundary is challenging. We saw an example of this in the SMG case between the eldest daughter and her father. A potentially explosive situation was resolved by separating the parties' domains of involvement – in this case geographically. Conflicts can arise, however, between the style of approach that should predominate in a family, typically between those who favour a softer and more consultative approach (we have often found this among next generation members where there is a less clear distribution of authority and less experience) versus a more decisive approach (usually found in the senior generation, who have both the authority and experience to push harder and make faster decisions).

Case 3: Services Firm

Summary

Category: Small sibling partnership
Turnover: £550,000
Number of employees: four full time; six associates
Industry: Services

The next generation situation – characteristics at a glance:

Support structures for the NxG: Emerging	**Development stage:** Sibling partnership (G2)
NxG ownership: The majority of shares are held by the two next generation members working in the business	**NxG professional involvement:** Medium
Issues of succession: Creating and consolidating the network of the founder	**Family cohesion:** Low to medium; Mixed perceptions
Sibling rivalry: Present **Sibling alliance:** Present	**Family incident:** No major family incident
Inclusion vs. exclusion: Exclusion at present	**Conservative vs. liberal (tolerating difference in families):** Polarisation based on different value systems
Inter-generational authority (power distance): Low to high – varied perceptions	**Emotional ownership:** Highly variable across family
Other family dynamics: After divorce and remarriage, two siblings were added to the family	**Other issues:** None

From Services Firm, we spoke to four siblings on the mother's side of the family, Emma (42), Lynda (40), Phil (36), and Roger (36) and two of their spouses. We also spoke with three children of the next generation, Emma's and Harold's son Trevor (16) and Lynda's sons Harry (22) and Simon (16). Emma has an MA in management development. She is a director of the business and has worked there for the past 14 years. Emma's husband Harold (45) works in the business from time to time, but his main responsibility is the home and children. Trevor is finishing his A levels and wants to pursue a career in music. Emma has shared leadership of the firm with her brother Phil, who has a degree in geography and worked formerly *as a teacher. He has worked in the business for approximately seven years. They both gained an MSc relevant to the business before joining. Phil's brother Roger has an MSc in computer design. He used to run a freelance IT business that partnered with the Services Firm, but after three years Roger was approached to go back to the corporate world. He is considering coming back to the family business in the long term. Lynda has a high school diploma and some further education. She works in healthcare and lives quite far away from the rest of the family. Her eldest son Harry has GCSEs, and currently works as a bricklayer. Simon is also completing his A levels and is aiming for a career in banking or finance.*

On the father's side, we spoke to one of the two brothers, Alan (42). He has an MA in fine arts, and works for himself as an artist.

Issues facing the next generation of this family business are associated with both separating and integrating the business and the family, so as to avoid miscommunication. Associated with this challenge are certain divides in the family, and the perceived exclusion of certain members.

Services Firm was founded in 1983 by the step-father of the next generation. Initially set up with four non-related owners, the company evolved over time to involve family. The company has a tradition of co-leadership – it was co-led by the parents and leadership is now shared between the eldest daughter and son, Emma and Phil. Albeit a small business, it is highly regarded in its specialist field, operating all over the globe.

Board

Services Firm has a small board with three directors, one of whom is non-family. There is a conscious effort not to have titles (to avoid possible sibling rivalry), but tasks are divided. The two family directors are both responsible for the company's direction. Emma focuses primarily on business management, overseeing relationships with suppliers and accounts. The non-family director manages the office in the siblings' absence.

Next generation involvement and support structures for the next generation

Only two family members are involved in the day-to-day running of the business: Emma and Phil. Additionally, Emma's husband has an intermittent part-time involvement in general office support.

Services Firm has no formal structures in place, but nonetheless has a system for the involvement of the next generation. For example, family members joining go through the same screening as non-family applicants. An attempt was made to set up a family business forum/meeting, but in the end they *"did not get around to it."*

The transition of ownership was carefully thought through, as is described below.

Ownership structure and transition

Ownership is held by five individuals, four family and one non-family member (the office manager). The parents have transferred their ownership to the children working in the business, whilst they have retained a small holding of shares.

Ownership transfer took place according to a five year plan, whereby Emma and Phil gradually purchased stock. In the end, it was more of a gift than a purchase. There is an ongoing commitment to share profits with the parents over the next seven years. The scheme is *"more of a personal recognition than money-driven".*

Succession

Services Firm has just gone through succession from the first to the second generation. It is only a year and a half since the senior generation withdrew their involvement, and the company is still in a transition period. The mother retired earlier, but both parents still offer behind the scenes support and *"brainpower"*, although their involvement is shrinking. Company revenues were affected by the transition, which created a *"static year"* in terms of growth.

In the senior generation, all family members were professionally involved in the business. As such, recognising the interests of non-working family members as a separate group in the family is a new issue to be addressed.

Services Firm's next challenge is to attract additional non-family associate consultants and to integrate them fully in the close-knit team. In company history, collaboration between family and non-family has been a frequent occurrence, providing the firm with experience in that particular challenge.

Family background

From council estate to global player

Certain features of the family's background are relevant to the next generation's situation as it is today, particularly on the mother's side. She went through a divorce after her husband and father of her four children left her. As a single parent on a council estate, life was not easy for the family, but she managed to turn things around and enhance the social and material status of her family. She remarried and helped her new partner found the company.

"[We had a tough] upbringing after the break-up…mum got herself together and got qualifications – now we travel and work across the world. I was gob-smacked that life can be so different." (G2 working member)

In the next generation, the middle child, Lynda, left home at 16 and became pregnant soon afterwards. In relation to the rest of the family, she refers to herself as the *"family rebel."* She has now been a single mother with three children for 12 years. The rest of the family helps her when she asks, but she lives far away and does not feel part of the *"team"*. Given her early departure and subsequent lifestyle, described as having created a different value system, there is a sense of fundamental difference between Lynda and the rest of the family, as illustrated by the quote below:

"Personally I don't necessarily agree with their values – don't have a business mind, no need to – just get on and survive…I am very different from the others…" (G2 non-working member)

As a consequence, communication between the family and Lynda is fraught with difficulty, and her role in the *"family pattern"* is perceived as hard to change.

Family and business spheres

A different language

There is no social agenda that unites the family and business spheres. However, family occasions are often infused with *"business talk"*, to the frustration of next generation members who do not have a professional role in the company. Because the language of the business is quite different from normal family communication, some feel the business is treated as a kind of "secret" that only some members are privy to. Family members try to contain these situations by flagging business topics and setting time boundaries around them in family gatherings:

"We have clear ground rules about it and work it at a very up-front level – talk work now – OK? 20 minutes? We compartmentalise it to avoid pollution." (G2 working member)

Clearly people are taking the first steps in clarifying family and business boundaries, but there is still scope for further integration. Since the next generation shareholder group is restricted to those who work in the business, there is little motivation to involve those on the outside.

Gender roles

It is interesting to note that one of the households in the family business has created *"reversed roles"* in order to facilitate a female member's participation in the business. Emma's work as a director involves a great deal of travelling, and so her immediate family have adopted a progressive and pragmatic approach giving her husband the main responsibility for the children and home care, which he incorporates in a flexible schedule with his freelance business.

> *"I'm quite happy staying at home…I have been in this role since 1991. At first it was very difficult, mainly because of the male ego, not being a breadwinner…made it easier [because] it's a choice we made, and we're happy within these roles. Role reversal happened with time – it was the way forward." (G2 non-working member)*

On the inside or the outside?

A deliberate separation has been created between those who work in the business and those who do not.

> *"Business and family relationships are quite separate…no meetings at all – and that's a conscious choice. Work is…not shared with other members of the family – they don't have a direct input in success or failure…without a degree of understanding, how [can we] have valuable discussion." (G2 working member)*

The divide between working and non-working next generation members is complex, and can be viewed at three levels: 1) thought level, 2) material level and 3) emotional level.

The divide of thought

Next generation members refer to having different *"values"* and *"vision"*, which to some extent is linked to having different lifestyles and material wealth. Also, understanding of the business only belongs to those who work in it, which inevitably affects communication and creates a special sense of belonging between family members. An early memory of a family member exemplifies this:

> *"I wasn't a part of business, [I remember] feelings of exclusion at times. Key things were on material wealth – perception that [they had] greater material wealth than me…and jealousy that they shared a secret – this commonality that I didn't have…" (G2 non-working member)*

In terms of choice and opportunities, there is no deliberate exclusion of family members. Rather, it seems to just have happened that way. Although there is no formal policy guiding the integration of family members, much planning, discussion and development took place when family members joined in the past. Yet, family members tend not to talk about next generation members joining:

"We don't talk about it very much – business was never set up to include other family members…Got me thinking about…why don't we speak about family members joining…" (G2 working member)

Members of the group on the outside of the business see this as an issue of trust. They feel working members fear that they, the outsiders, might wrest control from the working members if they were *"to have a say what's going on"*.

Divide in material wealth

Family members working in the business have far greater wealth and income than those who do not. This is what we have called an issue of distributive justice – some outsiders see themselves as denied opportunities in life that the insiders have access to. These perceptions are heightened by the visibility of discrepant life styles of the two groups.

"Some outside the business…their vision is different…have jealousy of the opportunities provided by the business. Going off to the Middle East [or somewhere] seems like an attractive lifestyle when it's an inconvenience… [not a holiday]." (G2 working member)

"When times were hard [and I was] struggling…no light at the end of tunnel…it was incredibly hard to see siblings having [everything] handed on a plate – even if they worked hard…quite envious…"
(G2 non- working member)

Emotional divide

The divide between these groups is also a downside for the insiders. It is hard to acknowledge and accept the differences at an emotional level, for both groups. This leads to emotional distancing, resentment and rivalry. The emotional divide is described as originating in the family hardship that existed prior to the business being founded. The instinct to survive in hard times can have unintended divisive consequences:

"They are very kind people [but] they marginalise me in a family context. Triggers feelings of frustration and anger – of course…but also strengthens my resolve to make things work in my way…I am not bitter…I don't hold them personally responsible. They were desperately poor."
(G2 non-working member)

"Patterns of behaviour are repeated…it runs very deeply…the family went through an incredible ordeal to survive – with a single mother – that background of survival becomes an instinct." (G2 working member)

Few or no close relationships are described as existing across the business boundary. For example, relationships between the step-siblings are not described as particularly close, and neither of the founder's two sons works in the business.

Sibling relationships: Co-leadership

Co-leadership

Personality differences between Phil and Emma have helped them to work as a team. Different approaches and ways of dealing with clients are achieved through a balanced combination of *"empathy and emotional awareness"* on the one hand, and *"pragmatic business values"* on the other. It is a dynamic relationship with elements of both sibling rivalry and alliance:

> *"…we use our combined power. Sometimes an element of big sister does come into it, and…she has been in the business [twice as long]. Not a hierarchy, but in a sociological way…in conversations how she approaches and I respond – a bit parent–child like – domineering parent expects a response, I rebel against that. Do get a lot of support in…managing my family [where she has] more experience…work–life balance – 'parental' advice." (G2 working member)*

Close sibling relationships and non-family

Close and *"robust"* relationships among siblings in the business are described as potentially creating awkwardness or difficulties in relations with third parties, for example, when the siblings air their conflicts openly. The implicit understanding and shared family history is also seen as a barrier inhibiting the integration of non-family members in the team.

The generation after the next

There is no stated intention to carry the business forward to the third generation. Despite an awareness of this, members of G3 – i.e. the children of the next generation – have declared an interest:

> *"I don't think anyone expects me to carry on – (Interviewer: How do you feel about that?) When I was younger, I wanted to, [and felt] downhearted – now it doesn't really bother me at all." (G3 member)*

> *"I am interested…used to think about [joining]…but was not so sure what they do – now explained to me…I go and see them…planning to find out." (G3 member)*

The youngest members also have a view on the attitudes of the senior generation about family involvement. One said he believes that the grandparents are keen on taking the business into a third generation, but that it would be difficult to be integrated *"because it's a team…it would be hard for new members."*

Commentary

The Services Firm case brings out two key issues that many family firms face: 1) family versus business and 2) sibling relationships.

Family versus business

Is it necessary for family businesses in their early stages to have an effective channel of communication between the family and the business, particularly if there are shareholders who do not work in the business. Keeping family and business separate, as Services Firm have done, can be an efficient solution, but it can cause unintended negative consequences. The separation can never be complete – business and family spheres will still influence one another, so some degree of meaningful communication is necessary to avoid misconceptions and to solve problems that may arise, not least those that divide a family. It is this motivation that has led many family firms to set up family forums or councils.

Sibling relationships: Envy and jealousy

This case demonstrates how productive and effective sibling relationships can be, here exemplified in the co-leadership between brother and sister (*sibling alliance*). The elements of *sibling rivalry* in the relationship lend it a dynamic and creative tension. However, beyond this relationship in the wider family there is a climate of envy and jealousy. This is not uncommon in business families, and it is a reality that has to be openly faced and dealt with. Jealousy and envy are the dark side of competition and rivalry, which are motives that can lead to positive outcomes. The difference between them is subtle but important.

But the question is – what is "it" that people envy? This varies from family to family, but on the surface it is usually about possession. Beneath the surface it is about basic needs such as love, identity and belongingness. Miscommunication and having seen things from a certain perspective for a long time can make people become quite far removed from each others' realities. Therefore, what people envy is no longer a reality; it is a constructed and idealised image of reality. For example, in Services Firm, the reality of those who work and the reality of those who do not work in the business are two quite different stories. Understanding another person's point of view is always challenging, but it becomes impossible if there is no opportunity to check whether their reality is shared. It requires more than imagination and a willingness to put oneself in the other person's shoes – it takes communication.

It is also often necessary to refer back to the roots of such a divide and what it represents. In the case of Services Firm, one can hypothesise that as long as the business and family are kept apart, the business may constitute an *"…obstacle for family change"*. The business can become a mechanism that ensures that family patterns remain the same for a number of reasons. These may include unwillingness to give up established roles and privileges, need for control, fear of losing love or status in the family, or even fear of change itself.

Family businesses who find themselves in situations like this have two questions to answer:

1) What is our motivation for changing our situation?
2) What will happen if we do not change our situation?

In many cases, the answer to the first question from a business point of view is "why fix that which isn't broken." Perhaps there is no intention to continue as a family business. In the case of Services Firm, there are no non-working owners in the family, so the need to create a dialogue between the business and the family might seem less acute. Even so, intentions need to be made clear, so that a long-term strategy that incorporates the family can be formulated. Changes in the ownership structure can shift family dynamics. For example, if another sibling were to join the management team, would that person be given a share in the equity?

If there is no desire or intent to change the situation, it is still worth considering whether the status quo is really the most desirable condition and could not be improved. Even if the answer is yes, a motivation for change can still emerge from considering separately what one wishes to achieve as a family, and as a business.

If there is a need and motivation for change, what can family businesses do? On the most fundamental level, a dialogue is necessary to re-align and discuss future options. It is helpful to have a knowledgeable third party facilitate such dialogues. In the case of Services Firm, the different views of "reality" that cause friction and estrangement can be addressed in family meetings along with other issues such as rules regarding ownership and expectations of third generation members wishing to join. In order to gain continued clarity in communication and structure surrounding these and other issues, family firms can then assess whether they want to formalise the outcomes of these dialogues in a governance system of their own design.

Case 4: Manco Ltd

Summary

Category: Small cousin consortium
Turnover: £3.5 million
Number of employees: 50
Industry: Manufacture of vehicle parts

The next generation situation – characteristics at a glance:

Support structures for the NxG: Emerging	**Development stage:** Cousin consortium (G5/6)
NxG ownership: Cut-off age 18; five owners in the next generation	**NxG professional involvement:** Scarce
Issues of succession: Imminent, fairly clear path; Taking over the reins	**Family cohesion:** Medium to high; Generally cohesive
Sibling/cousin rivalry: Present but not disruptive **Sibling/cousin support:** Present	**Family incident:** Substantial family row over control and ownership of the business in earlier generations
Inclusion vs. exclusion: Exclusion present	**Conservative vs. liberal (tolerating difference in families):** Polarised; male-female differences; other differences
Inter-generational authority (power distance): Reported medium to high	**Emotional ownership:** High
Other family dynamics: Two family branches; dynamics expected to change going forward	**Other issues:** Managing expectations of involvement in the business; keeping family members at a distance yet involved

For this case, we interviewed five next generation members, and four of their spouses/partners. The next generation members are: Francis (39), Gemma (34), Rodney (29), Tom (30s) and Harold (30s). Francis has a BSc Hons in engineering, Gemma has a chef certificate and a diploma in floristry, Rodney has GCSEs and NVQ (business). Tom has a BSc in law and business, and Harold is a qualified teacher and has a professional electrician's qualification.

Main issues facing the next generation include the imminent retirement of the current business leader, dealing with traditional versus progressive undercurrents in family attitudes, and finding ways to be together as a *family, and recently, formulating a shareholders' agreement. As the heir apparent, the biggest challenge for Francis is to take on a leadership role as well as being the only family member working in the business when the presiding generation retire. Gemma has a high interest in being involved in the property side of the business, but is facing resistance. Rodney lives far away and hopes that his interest in knowing about the business will not change after the succession. Tom is interested in the possibility of being involved as a non-executive director, and Harold keeps a low profile in relation to the firm, but is proud to be part of it.*

Founded in 1860, Manco Ltd is currently in the fifth generation of operating, going into the sixth. It is a manufacturing company, specialising in the production of parts for different types of vehicles. The sales revenues generated by the company are approximately £3.5 million, and a steady growth is expected over the next five years, despite the difficulties facing the industry. On a global scale, the business operates in a niche market, as one medium-sized player among 12 others worldwide.

In addition to manufacturing, a separate property investment company has been set up to sustain family wealth.

Board structure and family involvement

Manco has three family members professionally involved in the business, two at board level, with only one member of the next generation involved on a day-to-day basis. This member also sits on the board. This is a cousin consortium forged from two family branches. Both are represented on the board. The MD and Chairman, Sebastian, and his son Francis (production director) come from one branch. Representing the other branch is Fiona, a non-executive director. In addition, there are three non-family executives running sales, technology and finance. This is a company that has *"always had outside directors."*

Next generation members include two sons and one daughter from one side of the family, and two sons from the other.

Previous family incident

The history of this family business includes a major row between the MD's father and uncle, a dispute that was resolved about two decades ago. The family took the case to High Court, where the judgement set legal precedent, and left a devastating legacy of jealousy in the company. Sebastian described how he got his job *"by accident"* as a result of the conflict, after the company had won the court case. Having lived through this crisis convinced Sebastian that the family had to work out a structured system and norms of communication. The initial challenge was to find in their somewhat remote part of the country the kind of expert help they needed. Eventually, a consultant who was referred to as their *"mentor"* guided them through the process.

> *"[It was] so bad I was determined to do something to ensure [there are] hurdles to jump before falling out with each other. Now [we have a] dispute procedure…on the whole they bought into it – some were awfully cautious, but we're virtually there…I was lucky, I managed to start this when there was not a lot of strife – to nip it in the bud.*
>
> *However, if somebody has got a bee in their bonnet you can't stop them – it just crashes on unfortunately. It is a fact of life." (G5 member)*

The row between the brothers had also rather messily involved a third (non-family) party, and a key feature of the family charter subsequently created was to restrict ownership to bloodline only, so as to minimise the interference of outsiders. The other rule of thumb agreed upon was to restrict the number of family members involved in the business.

Governance arrangements and support for the next generation

There are currently eight family shareholders, plus one very minor family shareholder overseas. Some ownership was previously held in trusts, but these were considered *"expensive and unwieldy"* and were dismantled. Transfer of ownership to the current generations was done mainly through inheritance.

It is said that the company is still in an *"experimental stage of development"* following the process they recently underwent. Support structures are described as *emerging*. The family forum is run by five family members, who take turns to sit on its management committee. In addition to the family charter, a shareholder agreement has just been completed. Meetings of the family forum include all family members above age 18, including spouses and partners, who get equal information and equal opportunity to voice their opinions.

Whilst there is no special training programme for the next generation, the family undertakes to encourage informal and formal education. All of the next generation members have work experience in the company, through holiday work or other assignments. Next generation members also organise for themselves a social agenda involving a family holiday home.

Early memories

From the early years, there are some *"fairly traumatic"* memories of the family falling out, including the saga of ousted members trying to get back in the business, with court cases and animated family discussions about what was going on.

> *"…there was barely if any communication with my great uncle – for all of my life – I saw him once when my grandfather died, at the funeral…walking down the road. 'He looks just like grandfather!'…my face stuck against the car window – (Shush!) –" (G6 non-working member)*

For others, memories are more limited. For example, one member grew up with no involvement in the family business whatsoever. There was not much discussion in his branch about it, where the climate was dominated by a parent who *"believes in not talking about confidential issues"*. This ethos changed when the families entered the consultation process, coming to a realisation that the next generation needs to be involved.

> *"How do I feel about it? It never ever bothered me – assumed that it was nothing to do with me. I'm very happy with the course of my life, not sitting here thinking I should be working in the family business – no regret, no negative thoughts…I do have negative thoughts: [we should have been given the opportunity to talk more openly about it]."*
> *(G6 non-working member)*

Another memory is associated with parents being away quite often. As a child, Rodney was sent to boarding school to enable the parents to focus on the business.

> *"I don't begrudge them at all…I appreciate it now – not then. Now, looking back, it was a very sensible thing to do." (G6 non-working member)*

Strong passions and *"awful stress"* could sometimes surface in family life, caused by the business. In earlier days, disagreements at home could lead to *"occasionally heated arguments"* between the parents, but their relationship was robust enough to withstand them and never reach breaking point. As one put it, with a laugh, the general attitude was *"murder before divorce."*

Succession

Sebastian's retirement is quite imminent:

> *"We are at a crucial point, looking for a next generation change. My father will retire imminently – we work with a consultant, going through the transition, and in conversations, it's on our minds."*
> *(G6 non-working member)*

It was always "clear" that Francis was going to take over; it was the *"logical progression".* He was educated and trained for the work. There was *"a kind of inevitability, not sure if it was by choice alone".*

Branch entrenchment

When the two current family leaders retire from their posts, the power balance will change. The fact that only one side of the family is represented in senior management has created a need for the other side of the family to keep their presence. One of the cousins is expected to *"fight the corner"* of his branch, making sure that the branch is represented. He is currently considering taking a position as a non-executive director.

Despite the families' fondness of each other, next generation members tell of a certain tendency towards *"branch entrenchment"*. One side of the family can be contrasted with the other in terms of family interests, ownership, management and involvement of the next generation. These differences have been hard to reconcile, but the family business counselling they have received has opened the communication routes. Now people are getting on better and feeling less *"fragmented"*. Learning how to communicate with different *"personalities"* has also been an important ingredient in this process, particularly since communication in the family with the senior generation tends to exclude some issues: *"certain subjects are avoided completely."*

Changing dynamics

As the two senior generation members retire, the situation is expected to change radically. The way that the up and coming next generation members *"view things and interact is so different – it will change the family dynamics in quite a way – for the positive and negative."* Communication patterns will also change as a consequence, which is a source of worry to some members who are more distant from the company.

Managing expectations of being involved

There is a desire among family members to be involved in the business. However, family members are aware that positions in the company are limited, and they can only be attained strictly by merit. The family has agreed that no jobs will be created only for the sake of family members, but if any family member has useful skills to offer, there should be no barriers.

Even so, managing expectations and disappointments regarding family involvement has been difficult, at times leading to painful misunderstandings and skirmishes between siblings, for example. Based on this experience, it is seen as important to adopt a sensitive and procedurally fair process, making sure that everybody is given due consideration:

"There's a huge difference in the outcome [depending on] how you feel during the process." (G6 non-working member)

The reality of making money as a relatively small business is testing for those family members involved. Seeing the figures add up has come as a shock to some, who might have had an image of people *"drinking champagne on the board"*.

Expectations on the next generation

Francis, the next generation member working in the business, is alone in having all three management, family and ownership "hats" on. Thus, the expectations on him are quite substantial. The position comes with a high degree of complexity relative to other members of the next generation, as well as a heightened sense of responsibility.

In sharp contrast, some female family members have no expectations in relation to the family business; viewing the family in a traditional model that includes the norm that *"females stay at home with their children"*. The difference between the girls and the boys goes back to the days when the kids were doing holiday work in the factory:

"Whilst doing summer work, my brothers were expected to cycle to the factory – I was not, I was a girl – I went with my father in a car…frustrated back then – couldn't really…can't really see the difference…I was allowed to cycle around the countryside – but not to work!" (G6 non-working member)

Expectations in terms of education are also described as different. The brothers were expected to earn degrees, whereas the sister was *"groomed to be a housework rather than a career person."*

Similarly, but for other reasons, another next generation member recalled that, as a shareholder, he experienced no expectations whatsoever from the company until four or five years ago. Renewed attention to him and other family shareholders coincided with the pending succession of the fifth generation and the creation of a non-executive board position for a family member. Asking difficult questions from a shareholder position is seen by one member as the *"biggest area of conflict".*

Closeness, difference and acceptance

Some next generation members are scattered across different geographical regions, and as a consequence, are more remote from the frequent interactions that take place among the family group who live closely. Despite this the family is close-knit and *"well-organised"*, not just in the immediate family. The flip side of this is that the lives of the families is seen by at least one member to be *"insular"* and sheltered.

This strong identity can make it hard to accept difference, as experienced by one member in relation to his sexual orientation. His feeling of partial exclusion has strained relationships between him and other family members.

> *"The big thing I see [myself as] bringing to this research is about families and difference. Our family is full of difference – my relationship with [a male partner] was dealt with as individuals and as a group... Either they accept or they don't want to know…Younger members and parents have been the most accepting – been fantastic – there are [some who don't accept it] and I have to live with that…We don't all think or act the same way – certain members of the family would be happier if I disappeared and became a hermit artist..." (G6 non-working member)*

This illustrates how generational change may also be in step with changing cultural norms, widening the gap between members who embrace new norms at a different pace.

Commentary

In the Manco Ltd case, we have highlighted two issues in our commentary: 1) traditional versus progressive values and 2) inclusion versus exclusion.

Traditional versus progressive

Being a modern family with a traditionalist approach is an increasingly difficult posture to maintain. Today's next generation have grown up in a very different society compared to their parents. It was only recently that the rights of women and homosexuals were incorporated in our justice system, and attitudes change slower than the law. Gender roles are changing, but how ready are families and organisations to embrace those changes? It would seem that in family business situations where boundaries between work and family are blurred, one finds a greater need to rely on boundaries such as gender.

Traditional gender roles are also associated with the continuation of not only the family, but also of family involvement in the business. There are obvious inherent difficulties facing same-sex couples who wish to perpetuate the bloodline, and family firms have a special interest in encouraging the proliferation of the next generation.

Traditional separation of commercial work from work in the domestic arena can also impede the development of family businesses. The investment of time and effort required to raise a family is difficult to combine with a professional career, and this reinforces traditional gender roles and the exclusion of women from the business. Yet many family businesses have noted and taken advantage of their ability to facilitate a breakdown of these barriers by creating part-time positions and other solutions.

Inclusion versus exclusion

The theme of inclusion and exclusion that emerges in this case is allied to the dominance of tradition. A notable feature of the present case is that family interest in being involved is strong, despite the exclusion of some members. Judging from everyone's acceptance of the "merit" system for involvement in Manco Ltd, it would appear as though family members have understood and accepted intellectually the precedence of the needs of the business. However, have they accepted it emotionally? There is an apparent difference between being involved and *feeling* involved that is not fully recognised by family members. This brings us back to the key concept of *emotional ownership* that in this case serves to blur the boundary between work and ownership. In a family as close-knit as the one in Manco Ltd, it is hardly surprising that individuals want to contribute and that their identities are tied in with the family business.

On a practical level, it is in the interests of family businesses to be creative in seeking ways for family members to contribute, especially if there are limited opportunities to actually work in the company. How and where can family members make a different type of contribution? If there is positive energy there, it is advisable to make use of it before it turns into disillusionment.

Case 5: Holdings Co

Summary

Category: Large sibling partnership
Turnover: £243 million
Number of employees: 1,400
Industry: Investment holdings

The next generation situation – characteristics at a glance:

General note: Holdings Co includes three businesses: Finance Co, Industrial Services Co and Retail Co	**Development stage:** Predominantly sibling partnerships (G3)
NxG ownership: All NxG have ownership, given by the parents four years ago – the NxG have more ownership than the current generation	**NxG professional involvement:** Day-to-day: Scarce Board involvement: Dense (Finance Co)
Issues of succession: Different thoughts on career path for the leadership succession of one member	**Family cohesion:** No data available, but sibling alliance suggests cohesive patterns.
Sibling rivalry: Negligible **Sibling alliance:** Strong **Support structures for the NxG:** Structured	**Family incident:** Upheaval and rifts caused in the business on the mother's side of the family due to sibling rivalry and lack of succession planning – one generation removed from the NxG
Inclusion vs. exclusion: Predominantly inclusive; pockets of detachment	**Conservative vs. liberal (tolerating difference in families):** No strong evidence
Inter-generational authority (power distance): No data available	**Emotional ownership:** Detached to strong
Other issues: Taking on a non-executive role; Being entrepreneurially associated with the business	**Other family dynamics:** Age gap between first three siblings and youngest

Next generation members that we interviewed for this case consisted of a sibling group of four: Jeffrey (32), Alexandra (30), Carrie (28) and Nigel (20). Nigel is currently completing a college degree, and has not given too much thought to his future career. Carrie has a Masters in finance. She has an interest in the business on her mother's side, but might also consider opening her own business or continuing in banking, where she currently *works. Alexandra has a BA in Business studies. She has worked in one of the family businesses before, and although she is undertaking studies to qualify in a completely different profession, she is interested in remaining involved on a stewardship level. Jeffrey has an MBA and a BA in sociology and economics. He is considering a move from Industrial Services Co, where he currently works as a business development executive, to Finance Co – where he might take on a leading role. In so doing, he wishes to develop broader business development and entrepreneurial skills.*

Issues that touch all of the next generation are associated with the experience of ownership and the power in decision making that comes with it. Another issue is about how to remain – or become – involved and attached with the business(es) whilst not working in it as such.

Group Structure: Finance Co, Industrial Services Co and Retail Co

This case involves three firms that form the Holdings Co group and are co-owned by the family. All these companies are impacting on the development of the next generation, and so we have made reference to all of them in this case study.

Finance Co

Finance Co is an unlisted investment holdings company founded by the father of the current chairman in 1977. The grandfather also founded a second business, Industrial Services Co plc, in 1983. Both companies are thus in the third generation of family ownership. There are six family owners of Finance Co, with no trusts.

Industrial Services Co plc

Finance Co originally held 100% of Industrial Services Co plc. Subsequently, in order to finance growth, external shareholders were introduced, and currently, Finance Co holds a 38% stake in Industrial Services Co plc with an additional 7% being held by extended family members. Thus, Industrial Services Co is 45% family held in total. Family ownership is held in six trusts, and there are approximately 500 non-family and institutional owners.

Retail Co

Owned by the spouse of the chairman of Finance Co, Retail Co is a separate entity to the other two businesses, but still has an influence on the next generation. Retail Co was involved in a substantial family conflict in the past, which has had a negative effect on how some next generation members perceive the concept of family business. However, to some it still features as a potential work place for family members, and is appreciated for its sense of "familiness" and ties with the community where it operates.

Board composition and next generation involvement

Finance Co can be described as the most family-focused of the three businesses, mainly due to its board composition and ownership structure. The board consists of family members only, the parents are the executive directors, and the three eldest children are members of the board (and the youngest sibling attends all meetings). The chairman of Finance Co is the grandson of Finance Co's founder and is also chairman of Retail Co.

The board of Industrial Services Co plc consists of five non-family directors (one of whom is independent) and two family non-executive directors – the chairman and his nephew. One next generation member works in Industrial Services Co on a day-to-day basis.

Ownership

The Family Charter contains provisions relating to the next generation's ownership of the business. The entire assets were passed to the next generation approximately six years ago. However, legal power of attorney with respect to the assets was retained by the parents until each child reaches the age of 30. The fourth sibling must therefore wait another ten years until legal control of the assets passes to him, although he retains his stake in the firm.

Support structures for the next generation

Overall, support for the next generation in this business can be described as structured. As a reaction to the difficulties experienced in Retail Co, the current generation has taken many steps to ensure that the next generation and business will be spared from similar conflicts. Maintaining *"family unity"* is seen as the biggest challenge and disunity is perceived as the greatest threat to the future of the business.

With this in mind, Holdings Co has gone through a family business consultation experience, and next generation members are given regular one-to-one coaching to promote their understanding of the family firm.

> *"The family gives a lot of guidance and training for taking up business roles, e.g. how to deal with a family business – guidance on the emotional side, incredibly important [not just] the business perspective, to use different 'hats' and not be immersed in problems." (G3 member)*

Support structures for next generation members are primarily located in Finance Co, and include the following: written policies regarding the involvement of next generation members, training and education, a social agenda and a family council. The family council includes all members of the next generation, and is attended by professional advisors. In the Industrial Services Co context, support activities are limited, but include invitations to company meetings.

Inside or outside the family business?

Working or not working

Over the years, the businesses in this family have undergone many changes, particularly in terms of ownership structure, but also in areas of operation. This has had an impact on the level of interest in joining for some next generation members:

> *"Regretfully [I have not worked in the business]. But I was never interested in the areas [that the family business was in]. The business is changing areas, not focused anymore [on those areas]. I would like to start something of my own…Equally on my mother's side, it is not an option at the moment – too early to say…we will have a say [about] what will happen with the assets, but it's my mother's choice." (G3 member)*

A sense of lost opportunity is also evident in this case, with a negative effect on the ability to relate to the business.

> *"So so large. [I'd be] lost in a pool. Very large – where will I fit in? If I had joined earlier, [not necessary but now I'd have to start] in a low position. Don't see much advantage…not attractive. I struggle…to relate to [the business]. I see it more as a financial holding." (G3 member)*

In the above quote, there is a sense of detachment in relation to the family business. Having a "next generation" identity is integral in how young individuals relate to their family's business and its continuity. Here, that identity seems to be weak.

Other siblings experience their involvement in less uncertain terms and are fairly clear about how their involvement in the future might look. For the youngest member, Nigel, feelings are mixed. On the one hand, he is reassured that there will always be a job for him, albeit at a low level, but on the other hand, there is also a sense of obligation to join. This he sees as potentially creating a *"tension".*

Entrepreneurial involvement

Being in the business of financing entrepreneurs, Finance Co has an opportunity to involve the next generation that does not involve straightforward employment in the existing business. As an entrepreneurial family, replicating the multi-family entrepreneurship model is seen as a way for the next generation to do something of their own, but still be part of the family.

"If my sister wanted to start a business, she [could get investment], it'd be great – it has not happened yet, but the family invested my business overseas – took the lead investor position." (G3 member)

"My father [has said] if you start up [a business] he'd be interested – I love the idea of starting up a business." (G3 member)

Non-executive involvement/stewardship

As the business matures and the family keeps on diversifying, stewardship is becoming increasingly important. This brings the family to a whole new level of financial control, requiring direction from the very top. Next generation members would welcome being involved in non-executive roles, so there is an opportunity for development in this area.

Expectations

Nigel, the youngest sibling, feels as though he is best advised to make his own decisions regarding his future. Consequently, his sense is that there is *"not much weight on my shoulders"*, apart from an obligation not to *"dig up objections to what's being said"* in family business meetings involving the Finance Co board and the family council. The picture is slightly different for the eldest brother, Jeffrey, who is described as having to face *"lots of expectations."* These expectations originate from the employees as well as his father:

"[Employees] – talk about me as if I am going to run Industrial Services Co. I always said that the best person should run it. I'd be happy as number two, four or nine…as long as I'm contributing…[My father] wanted me to run Industrial Services Co – [he'd like to see his] son run it, he used to run it – I want to go to Finance Co…he was fine with that, and understands that. It takes a different kind of person to run that business."

Despite these expectations, he also experiences freedom in his situation; including freedom to leave if he wishes to.

There is no pressure for the sisters, Alexandra and Carrie, to be involved on the operational side. Rather, it would be regarded as a bonus if they were. Jeffrey recalls how his father offered him a board position on Finance Co. He in turn approached his sisters *"so it wouldn't be a father-son thing"* – but they were happy for him to do it. In fact, one of his sisters has made a conscious decision not to be involved on an executive leadership level:

"I stopped working, [took the] back seat... I never see myself as heading up a family executive board – be a member, make contributions but not head." (G3 member)

In this context, the *sibling alliance* that is felt among the next generation is important and has positive value. One told us that *"siblings are easier"*, they *"fight but make up"*, and are also said to provide support for each other:

> *"It really helps that we're close…[give] advice on issues relating to family business." (G3 member)*

Memories

The struggle that took place in Retail Co has dominated the memories of the elder siblings in particular. The consultancy process they have gone through is a direct outcome of that controversy. Regrettably, the business leader of Retail Co and grandfather of G3 left no succession plan behind for the family business when he passed away. A bitter fight over ownership and control ensued, with the sisters on one side, and the brothers on the other.

> *"No happy memories. It divided my mother's family. Family business is very stressful, it rubbed off on me." (G3 member)*

> *"Not very good association. I was very young – about six when you start to realise – up until last few years, a lot of trouble. Family members have fallen out with others, that is the reason of the charter. Endless struggle." (G3 member)*

Other memories include a father who was *"always working"* and a sense of lost opportunity to discuss the business more. In the earlier years, one member mentions not identifying with the business.

Emotional ownership

Detachment

For the youngest member, Nigel, the business has a quality of not being *"real"* – he has *"never touched it, never seen it"* and thus, his sense of ownership is not very strong. When his parents told him about his inheritance, he said it *"didn't change my opinion"*. Nor does he feel particularly wealthy as an individual – *"not my money, not my business."*

This detached point of view is also shared by one of the elder siblings – *"I don't feel connected to it – slightly removed"*. Primarily, this is due to not being or having been involved in the business as an employee. For this person, the association with the wealth is *"rather scary…and guilt. I don't feel I have earned it – perhaps so if I worked."*

On the other hand, those with past or present work experience in the business have a stronger sense of connectedness in terms of ownership of the business.

Decision making

Decision making, responsibility and control are also strongly associated with ownership. Reference is made to how *"emotional and intellectual control"* of the business still belong to the parents. Respect and deference to the authority of the parents are thus part of this equation.

> *"We have regular shares and deciding votes, but out of respect for parents, [we would] not act unless something is very wrong. Our parents are mentoring us, it is a steep learning curve." (G3 member)*

Overall, decisions are still made by the older generation – *"we haven't gone against [my father] yet!"*. It was also mentioned, albeit jokingly, that it took a certain degree of bravery to sign over ownership to the young generation:

> *"We could have blown it all – and said let's have a party!" (G3 member)*

At present, Jeffrey, Alexandra and Carrie have full economic ownership and legal control. As such, the issue of decision making is on the agenda. One member said:

> *"I want a more active role – earlier input in decision making. The facilitators back you up; the conversation is easier to have with a third party. My dad has more experience, awkward [if not the] same level, if you stumble. Dad is on top of the triangle, we look up to him." (G3 member)*

Differences of opinion and a tentative desire for more control are also surfacing in relation to Retail Co:

> *"It's my mother's business, I'll wait and see…I prefer to go one way, my mother prefers the other. Respecting her, I can't enforce an opinion (G3 member)*

Wealth

> *"…we keep it for future generations – it is not our money." (G3 member)*

This quote exemplifies the attitude of stewardship that prevails among the next generation. In other words, the experience of wealth is tied in with being *"part of the family"*. In addition, wealth and "value" are closely associated with the work and the people that are part of that experience.

"I am not motivated by money…but motivated by growing the business, doing deals, working with people…I used to work at a an industrial plant, a dreadful place – but I actually enjoyed putting together a team, watching things grow, creating a good business – like a family…people get on well creating value for the company and themselves." (G3 member)

Commentary

We focus on two major issues in this case: 1) emotional ownership and 2) growing in the ownership role.

Emotional ownership: Understanding and attachment

In this case, one sees how the realms of ownership and work can invade each other. This adds a very important dimension to our understanding of emotional ownership as a concept. The idea of attachment was outlined earlier as central to emotional ownership – but what are the factors that lead to either attachment or detachment?

In the Holdings Co case, there is a sense that work involvement somehow qualifies as a kind of ownership of the business. Associated with this perception is a feeling of guilt and being "undeserving" among some non-working members, which engenders a detachment both in terms of financial and emotional ownership. There are also examples of how work experience can make the ownership "real". In sum, work involvement can augment ownership attachment, but lack of clarity about the work–ownership boundary can contribute to a sense of detachment.

Many next generation members' only legal connection to the family business is via ownership. How do they perceive this connection? How real is it to them? How can they grow in their ownership role? Beyond the legal connotations of responsible ownership, it is also necessary to be clear about how *emotional* ownership exerts an influence over various issues associated with the family and business. For example, it could dictate the degree of interest in working for the firm. Alternatively, detached positions may lead to strained relationships in the future, potentially leading to greater difficulties in resolving conflicts. Understanding one's connection and what it represents requires self-awareness, understanding of family history and a consistent attachment style. *Motivation* to understand the connection is clearly a prerequisite.

Growing in the ownership role

The Holdings Co case also highlights how differently the next generation can experience ownership according to age and knowledge of the business in “real” terms. It raises the issue of how families can best promote the next generation’s knowledge of their businesses.

The next generation in Holdings Co have the benefit of belonging to a small family group, and to be involved in meetings that are devoted to ownership issues and their role as shareholders. However, in firms where individuals are part of a much larger shareholder group they face a tougher challenge in aligning their emotional *shared* ownership and maintaining family cohesion. There is a clear need in such cases as this for the next generation to be encouraged to learn more about the business and responsible ownership. They should be given support and guidance in this endeavour, but most importantly, a spirit of personal authority and responsibility should also be fostered, so that they do not become passive recipients in the process.

Case 6: Financial Services Ltd

Summary

Category: Large sibling partnership
Turnover: £500 million
Number of employees: 2,800
Industry: Financial services

The next generation situation – characteristics at a glance:

General note: Three families involved in and owning the business	**Development stage:** Multiple sibling partnership (G2/3)
NxG ownership: All NxG have ownership	**NxG professional involvement:** Dense **Family cohesion:** Medium to high; emerging between families
Issues of succession: Preparing for succession; creating a succession plan	**Support structures for the NxG:** Emerging
Sibling groups rivalry: Negligible **Sibling groups alliance:** Strong	**Conservative vs. liberal (tolerating difference in families):** Liberal
Inclusion vs. exclusion: Inclusion features strongly	
Inter-generational authority (power distance): Low to high – varied perceptions	**Emotional ownership:** Strong
Other issues: Being in a "research" phase and learning curve; taking on a non-executive role; team-building	**Other family dynamics:** There are three sibling pairs in the business

At Financial Services we spoke to three sibling pairs and four spouses. Colin (29) and Tom (25) are brothers, both working in the business for approximately three years. Colin is a chartered accountant and hopes to eventually continue in his accountant role at a director level in the business. Tom is also a chartered accountant, looking to work his way up in the company. Jo-Ellyn (37) and Miranda (38) are sisters. Jo-Ellyn has a degree in civil engineering, and works in the company as a PR manager on a part-time basis. She wants to develop her role as a shareholder, and is currently taking the leadership of the next generation shareholder group. Jeremy (30s), Jo-Ellyn's husband, works with the company on a consultancy basis, focusing on business systems. This project may continue another year, but Jeremy is also *keen to get involved with the NxG shareholder group. Miranda has an MA in retail and marketing. After many years in retail, she started her own business with her husband, but is now on a break to take care of her children. Carl (37) and Sophie (36) are siblings. Carl has a degree in civil engineering, and has worked at Financial Services Firm in various roles since leaving university. He is currently interested in gaining a senior director position in the company. Sophie is a medical doctor. She is at home with children at the moment, but is not looking to return to practising medicine, but rather to start a different career when she returns to work.*

Financial Services Ltd is co-owned by three unrelated families. Founded in 1930 by Jo-Ellyn's and Miranda's grandfather and his business partner, the company has seen a tremendous growth under the current G2 leadership. Company growth is stable at 15% per annum, and is expected to remain at that level in the foreseeable future.

One of the biggest challenges facing the company currently is the handing over of ownership and management to G3. Opportunities and threats are associated with the strong company growth – on the one hand, it allows them to build a new market, but on the other hand, loss of momentum could be a significant threat, slowing the company's dramatic expansion. Sustaining the rate of growth is thus an inherent challenge. Selling the company is an alternative, and there is awareness in the next generation that this is a possibility.

Board structure and shareholding

Financial Services Ltd has quite an unusual ownership structure, being owned by three non-related family groups. In the third generation, there are six owners, and in the current generation, there are three. Most of the ownership is held in trusts – six in total.

The board has three family directors – the G2 fathers representing each of the three different families. They operate as executive CEO, part-time executive chairman and non-executive respectively. In addition, there are four non-family directors involved in executive operations, three full time and one part time.

Next generation involvement

Next generation professional involvement is dense. Altogether there are five in G3 including one spouse, who are working in the business. As we shall see later, those who do not work in the business have a high level of interest in their shareholder roles.

Support structures and approach to transition

As the company is heading towards transition of leadership and ownership, steps are being taken towards creating the governance systems necessary for the handover and beyond. Until now, there have been no formal structures such as a family council, constitution or formal training for the next generation. However, there is a heavy emphasis on education and building a cohesive shareholder group using a social agenda that also includes business topics; for example, dinner meetings with experts in accountancy, law and business. This initiative is to a large extent next generation-driven, with Jo-Ellyn taking the lead.

The approach currently adopted by the young shareholder group towards the business, ownership and each other is exploratory and research-oriented. It is referred to as a *"fact-finding phase"* or a *"formative period"*. This state of being embraces two distinct learning styles: trial and error (*"we have broken all the rules!"*) as well as learning through observation and research. Doing it their way, they organise dinners, attend events, get togethers, mixing business and social elements, and include spouses. They have created a website where they can all keep in touch online. Spouses have their own password so that they can get information first hand, as do the senior generation.

In effect, the next generation is forming an ownership team, making themselves ready for their biggest task yet – taking over the reins of the company. Although the senior generation is involved in this process, it can feel somewhat cut off from these developments:

> *"I'd have thought young generation would work very closely to prepare for the transmission but it seems they stick with their own bits – they need to see what everybody else is doing. It seems separate and I don't think it should be." (G2 non-working member)*

Expectations

Living up to the achievements of the previous generations, particularly in the face of the massive growth achieved by them, is perceived as a challenge by the next generation. This pressure is compounded by the inherent difficulty in balancing the combination of family and business elements. One member describes the expectations in these terms:

> *"For succession [to] work…and the company to be successful…not let [our] parents down – it is a family as well as a business…they worked hard to build it up." (G3 working member)*

Expectations are said to originate from a number of sources. For example, it is inter-generational rather than sibling-based. Although the expectations are neither overt nor stifling, the parents have a natural desire to see the children succeed, whilst wanting to respect the choices made by the next generation. If next generation members were to be involved, it would happen because they were self-motivated to do so.

For those who work in the business, it is said that *"people expect you to move to a certain role"*. Being a family member working in the business brings *"added pressure"*. Although others watch your progression and have opinions about it, it is also described as *"inward"* – i.e. internalised. This is closely associated with anxieties about perceived nepotism, described in the following section. Expectations are also felt in terms of ownership, particularly by those who are more actively engaged. Next generation members who will have a majority shareholding in the future are aware of the extra responsibility they face, especially with regard to decisions on continued ownership, sale or growth.

Perceptions of nepotism

The expectations faced by next generation members are compounded by their anxiety about the likelihood of perceived nepotism from non-family employees. One member describes it as *"pressure…towards moving up and proving yourself even more."* Although family members are judged and interviewed in the same way as non-family employees, nepotism is still regarded as an *"issue…and family involvement may feel blocked because of that."*

> *"People look at you a little bit closer – are more likely to be critical…it is not the culture of the company, just people…looking for you to make a mistake, word travels around fast [if you do]." (G3 working member)*

Managing the combined roles of family member, employee and shareholder can sometimes be tricky, and it is a challenge to be able to wear different "hats". To fit in with other employees and gain respect through yourself rather than as a family member is said to be a difficult aspect of working in the family business, particularly when you first join; perhaps more so in such a large company.

Ownership: Responsibility and privilege

Next generation members in Financial Services Ltd are very serious about their ownership role. Many of them refer to it as a *"weight on one's shoulders"* and *"a responsibility"*. It has a positive counterbalance, however; the wealth that it brings was described as alleviating financial pressures on the home front.

The feeling of responsibility is associated with continuation of the company and the legacy of the senior generation. There is immense pride of the senior generation for what they have achieved, yet carrying that further is felt to be a daunting prospect. Whilst some feel the pressure of both owning shares and working in the business, others feel that their emotional ownership is enhanced by their work involvement.

Aside from feeling *"gifted"*, *"honoured"* and *"privileged"*, belongingness and interest also comes out of the ownership:

> *"[Ownership] is very important – makes me feel part of it – otherwise I wouldn't, because I don't work there." (G3 non-working member)*

> *"It means responsibility…given me a interest in the business, a confidence and right for me to take more interest…Flit between exciting opportunity and positive challenge – Oh my God! [But I] feel confident to take it on." (G3 working member)*

In terms of voting rights and decision making, reluctance was expressed by one member to act on them, due to their relative inexperience in the ownership role:

> *"…the learning curve I'm on at the moment, the legal point of view, I understand what obligations I have – at the moment [I would) never act upon them, because of my position – if a decision needed to be made – I could have a say, but lack of experience and age, it wouldn't feel right to make that input." (G3 working member)*

Engaging and contributing

In the business

A concern of the next generation is how to move up the ladder and what is going to take place with regard to leadership succession. Regardless of the fact that it is a large business, there is the question of whether there is enough space at the top:

> *"…transition of management to younger is a little more tricky [in a large company]. A lot more people are involved who should have a chance. It is a major issue, due to the size and nature of the business." (G3 working member)*

Involvement as non-executive directors is also on the agenda, and is another way of being able to contribute to the business in the future.

Outside the business

Creating a formal learning space for the shareholders and their spouses in the next generation is now high on the agenda. Their approach is one of team-building, and the group members are getting to know each other to achieve that.

There is a strong desire to work together, and shared commitment to keeping their common interest alive to facilitate the continued growth of the business. Associated with the ownership role is also the knowledge that one sibling pair will have a majority of the shares in the future. Creating alignment, trust and cohesion at an early stage in the shareholder group is their way of forestalling issues that may arise from this.

Family versus business

A clear distinction between family and work life is the pervading attitude in the next generation and family. Several family members of the second generation were skilled in maintaining a distinct family space and avoiding the danger of bringing business issues back home. The next generation members do not recall having discussions about the business with their parents. As a consequence, this division, albeit healthy, has led to the shareholder group needing to catch up with all the knowledge about the business they did not have previously.

> *"I've only started to understand the privileged position I'm in in the last three years – never understood really shareholding in such a large company. Not been kept in dark, just never – weird one, that. Not intentionally…the business side of it was never really brought up in a formal manner." (G3 working member)*

Arguably, this separation of family and business spheres has contributed to the difference in approach taken by the second and third generations. At the same time, the business brings the family together, and the next generation is now working to bridge that gap.

Next generation members are very aware of work–life balance issues and the contrasting needs of the family and the business.

> *"I am female and a mother…it is a harder position to be in…responsibility to be there for the children for women more so than men…go to work with an easier mind – for me the guilt kicks in. [Rather than] the financial pressure to work, it is the responsibility pressure." (G3 working member)*

Family roots in a large business

On a different note, an issue that faces the next generation is how to retain the family feel in such a large company. On a small scale, that is being accomplished in the three sibling groups, whilst they are creating cohesion and getting to know each other. As future stewards of the company, the *"family feel"* will inevitably begin with them. Their future mission as a cohesive and friendly group is to infuse that attitude into the rest of the business.

Commentary

Key issues from the Financial Services Ltd case involve 1) inclusion and engagement of next generation members; 2) family versus business and 3) succession planning.

Inclusion and engagement

Engaging the next generation and maintaining a sense of inclusion for those who do not work in the family business is a significant challenge for many family businesses, particularly those with a very large ownership group. The ownership group in Financial Services Ltd has the benefit of being small, with small age gaps and not having a history involving any major dispute or conflict. Even so, we are able to learn from their experience. First, their attitude is one of inclusion and communication. Second, ownership has in itself created a sense of belonging, which they are now actively building on. Third, next generation members have clearly taken charge of the process and have assigned one dedicated person to lead it. With some long-term strategic planning, what they are now building can be the foundation for the continued engagement of next generation members.

Family versus business

In contrast to Transco and Specialist Metals Group, the work–life issue is not one of business invading the family sphere, either through obsessively high levels of attention to business issues or by the absence of one family member. Rather, it is the clear demarcation that exists between business and family here. It is a healthy approach, albeit not without disadvantages. Social capital that a family firm is able to build up via informal communication, a shared language and a deep knowledge of the past are vital assets in the family firm's cultural portfolio. The trick for the senior generation is to find the right balance in conveying this knowledge, so as not to overwhelm or under-inform the younger generation. Each family's basic assumptions about the overlap of the family and business spheres are likely to determine the timing and amount of knowledge transferred.

Succession planning

The approach taken by Financial Services Ltd raises an interesting issue regarding the top-down versus the bottom-up approach to succession planning. This issue is mostly relevant to firms where there are multiple heir apparents in competition with each other. In this case, the senior generation is letting the next generation take the lead with the first stage of the process. Will they continue to adopt this approach in the following stages? Having begun with a bottom-up approach, it will probably be advisable to continue in that fashion. However, the question still remains as to how the senior generation can be involved and what kind of decision-making processes will be developed, particularly when it comes to leadership succession.

Family businesses adopt different approaches to how they manage succession planning. It is generally rare for firms to hand the main responsibility to the young generation, as has happened here. It is a strategy that empowers the next generation, and takes the burden off the seniors. The countervailing benefit of a more top-down approach is perhaps the ability to offer more structured and specific support and guidance to the young generation.

Case 7: Property Co

Summary

Category: Medium cousin consortium
Turnover: £48 million
Number of employees: 800
Industry: Property

The next generation situation – characteristics at a glance:

Support structures for the NxG: Emerging	**Development stage:** Cousin consortium (G4)
NxG ownership: Primarily indirect ownership in three trusts; eight family owners	**NxG professional involvement:** Scarce
Issues of succession: Has taken place officially – but senior generation still operating on the sidelines	**Family cohesion:** Medium to high
Sibling rivalry: Causing rifts **Sibling/cousin alliance:** Present	**Family incident:** Family struggle over ownership and participation
Inclusion vs. exclusion: Issues of perceived exclusion present	**Conservative vs. liberal (tolerating difference in families):** Evidence of different leadership styles
Inter-generational authority (power distance): Medium	**Emotional ownership:** Very high
Other family dynamics: Two family branches; not a deep cleft but potentially divisive; one "difficult" individual	**Other issues:** Evidence of meritocratic "backlash"; family shareholders regarded as "different" from employees

We interviewed four next generation members from Property Co: Samantha (mid-30s), Victoria (mid-30s), Catherine (38) and Eric (21). Samantha has a BA Hons in business studies, Victoria has A levels, Catherine is a professional ballet dancer (retired) and Eric has a BA Hons in graphic design. Main issues emerging for the next generation are to further develop and maintain the recently formed family council, getting to grips with the perceptions of nepotism in the business and finding a solution for a possible dilution of ownership in the next generation. Samantha's main issue is associated with her father's reluctance to let go and give her full reins as chairman. Victoria's main concern is being part of the business as a non-executive director, but *also to tend to her own business and tasks associated with the family estate. Catherine's previous attempts to work in the business were unsuccessful, and her remit now is to learn more about the business for her family council functions. Finally, Eric has mixed feelings about entering the business – he feels a certain pressure to become involved. He is interested, but he is also aware of the layers of perceived 'nepotism' and feels that entering on the lowest level would be necessary.*

With sales revenues of £48 million and employing approximately 800, Property Co is a medium-sized company in its fourth generation of ownership. Founded in 1890, the company operates in the property sector, which involves a high pace of change and technological development. Farmland and estates also form part of the business as a separate entity, owned by one of the two branches in the family. Over the past ten years, the company has been expanding and is expected to grow further over the next five years.

Board composition and next generation involvement

Property Co's board has a family chairman and a non-family chief executive. In addition, there are three non-family executives and three non-executive directors, one of whom is a family member. There is a vacancy for the commercial director's post, and the company is also looking to recruit one additional family non-executive. Uncommonly, all family members at board level are female. Overall, next generation family involvement, when it comes to working day to day in the business, can be described as scarce, consisting only of the one member mentioned above – the chairman.

Support structures for the next generation

Although there is no formally agreed and written set of rules that address the situation for the next generation as yet, guidelines are being drawn up (to be incorporated into the family constitution) for the recruitment of family members. Support for the next generation is still *emerging*. There is a family council, which meets once per quarter. A social agenda is also taking shape, involving children and young people. Next generation family members are invited to annual general meetings, which present an opportunity for managers and shareholders to talk about issues facing the company, and to create an understanding of what is going on.

Ownership

Most of the ownership of Property Co is held in trusts. There are three family trusts, and all trustees except for one are non-family. Share ownership in this generation is largely indirect, apart from a small portion of individual shares. The trusts have seven beneficiaries and there is one major shareholding outside the trust (belonging to the eighth shareholder). The assets of one trust include a farm estate which has been in the family for a long time. Ownership is divided across two family branches, with one branch owning the farm and just under half of the business, and the other owning just over 50% of the business.

This outcome is somewhat at variance with the founder's wishes, the grandfather of the current generation, who had determined that the next generation ownership would be split up so that one part of the family would own the farm, and the other the business. The result has left a residue of feelings that this constituted unfair and preferential treatment for certain family members. Other next generation members have a more pragmatic attitude to this divide, which they see as posing no immediate threat to family and business stability:

> *"...either we get rid of [this divide] or learn to live with it...it is not a nasty split." (G4 non-working member)*

Additionally, rivalry among siblings regarding compensation for family members and, in particular, the practice that family members who gain an executive position are given additional shares, has led to one sibling becoming "disaffected". These dynamics have created a motivation to prevent family members from gaining executive positions.

The family council was set up to address issues arising out of the divide in the family, among other things, and to ensure that no next generation members come into the business without the correct skills. It is also designed to avoid any sense of preferential treatment of children with regard to the business, or of nepotism within the family.

Leadership succession

The succession from the previous to the current leadership is described by Samantha as *"a phone call that changed my life"*. No explicit plans had been made regarding succession, rather it was more a case that *"help was needed on deck"* at a particular point. From then onwards, the current chairman describes how she became engulfed by the passion of the business, stayed on and eventually took on a leadership role.

However, her father is still involved "behind the scenes". This semi–retired state exemplifies how hard the *"mental handing over"* is proving to be for him. Going back one generation, the father's own succession experience was similarly characterised by a father who found it hard to let go:

> *"...[in the end, our] father couldn't wait to get his hands on the business [and succeed our grandfather]. Now it's his life. All his friends are business*

friends…and it is difficult to let go. Samantha is quietly confident – his confidence in her [will eventually make him] back off. [In the meanwhile] it could be a good partnership – he likes socialising [and she has a young family]." (G4 non-working member)

Similarly, when Victoria joined as a non-executive, it *"wasn't a complicated decision"*. Her mother had previously held the role, and since her daughter had long tenure and a fair amount of experience of the business, the succession choice was straightforward.

The family's attitude to the prospect of other family members joining ranges from enthusiasm to what is described as *"devastation"*, depending on their relationship within the family. The process by which family members join has been quite informal so far.

Leadership styles

In terms of leadership styles, the father and daughter are said to differ fundamentally. This situation involves a *democratic versus autocratic* polarisation in leadership approaches. The father has a very deep knowledge of the business and the authority of a long tenure, but his personality inclines him to come across as more demanding than Samantha:

"…she is more of a people person, better listener, better communicator. He is a bit of a dictator – what he wants he gets, she listens to other people's opinions. Clashes? Possible. She says to him: 'You can't speak to people like that.' She can say that because she is his daughter."
(G4 non-working member)

Eric told us how he placed a bet with Samantha that she would have an argument with her father before she even joined. The bet was won. Arguments do still occur between them, but are said to be readily resolved.

Perceptions of nepotism

Described as being rooted in employee envy about family members being affluent and the offspring of the boss, perceptions of nepotism are recounted to have been experienced as being singled out and *"victimised".*

"[A disadvantage in being the] boss's child, part of the family: 'He's loaded, why is he working here?...to keep an eye on us, he's going to take our promotion?' [can create] paranoia." (G4 non-working member)

"You never really know how good or bad you are – even if people fill out

360s, some people will tell you what you want to hear. You have to live with that – some people think you got that job because of who you are. Only when you've worked with them for a while it's fine…but for example in the district offices [may be] the opinion that 'I missed out of a promotion' and that family business people expect a golden elevator to the top…you have to be able to live with that – if you can't, you can't work in the family business." (G4 working member)

Meritocratic backlash

This results in what we call the "meritocratic backlash". This is where the requirement to be meritocratic, in a quest to avoid claims of nepotism, is exaggerated. Instead of helping to reverse the perceptions of nepotism, it merely serves to act as a barrier to next generation members joining. The story below highlights the complexity of this phenomenon, in which two next generation members reflect on their experience of working their way up in the organisation from a low level.

Barriers to entry

Catherine recounted the failure of her attempt to become involved as an employee of the family business. There was a strong prevailing non-family employee culture in which it was regarded as *"inappropriate"* for family shareholders to hold low-level positions. Employees were reported to have felt embarrassed by family shareholders engaging in low-level work, and hence they sought to avoid the situation. In this case, with the enthusiastic backing of her father and sister, she had been assigned to acquire work experience in a department of the firm which would make up for the deficiency of her business-related skills, starting part-time with the aim of moving to a full-time position when she was ready. The department in which she started quite by chance, became aware that she was a company shareholder:

"I was invited to a trade fair…and one of the non-executive directors came up to our stand, recognised me – I had to say who I was – people got embarrassed. It was funny…My involvement fizzled out after that – didn't work out, they couldn't find a place for me. [Among the] only things [I was qualified for] was to be out in cars handing out leaflets. They kind of thought it was not appropriate, they were embarrassed – asking 'Are you sure you want to do that?' 'Yeah don't mind – learn from the bottom…'"

The whole episode, which took place a year ago, was described as both a disappointment and a lost opportunity. As someone in the target group of consumers they were aiming to reach, Catherine felt that she had a lot of value to add.

Independence
Gaining experience in another company is regarded as an important strategy in terms of joining the firm. However, for Eric, the youngest of the next generation, it is also valuable to work one's way up in the company:

> *"I'd start bottom up as a delivery boy, really low down and work my way up…follow through to something a bit higher and not jump in at the deep end…"*

However, it would be the case that such a level of entry would be disproportionately low for someone with his degree of education and training.

Memories of growing up in the firm
What dominates the next generation's perceptions of growing up with the family business is a sense of *"privilege"* and *"luck"*. Ownership in adult life evokes similar feelings. For some, the business was like having a *"second house",* though for those involved with the family farm, the business did not figure hugely until they started working there.

> *"I didn't see my father a lot when I was younger – we grew up with a sense of duty and obligation – and being extremely privileged."*
> *(G4 working member)*

Property Co is very well known in its community, which implies that members of the family carry the role of being *"ambassadors"* for the company, regardless of whether they work in the business or not. In practice, this may mean sitting on charity boards, but most importantly, there is a sense that their behaviour is associated with the company, and therefore, being a *"good person"* and promoting the company is important. There is a great deal of pride associated with the family business, and descriptions of their work and company are characterised by love and passion for what they do.

Commentary

There are four key themes in this business. These are 1) perceptions of nepotism, 2) inclusion versus exclusion, 3) the "difficult" person and 4) next generation members taking the role of non-executive director.

Perceptions of nepotism
This case highlights how perceptions of nepotism can hamper the progression of next generation family members in the business. In Property Co's case, these

perceptions have prevented at least one member of the next generation from wanting to become involved. It also creates a double-bind for members. On the one hand they feel they have to join at the lowest level to avoid nepotism. On the other hand they are exposed to embarrassment in their status of owners when they engage in low-level menial tasks. This is based on the notion in the wider business that simultaneous ownership *and* working in the company are somehow "inappropriate". The next generation lack guidance on how to navigate around this dilemma.

Family firms may over-compensate in their desire to avoid claims of nepotism. As a consequence, they may risk a "meritocratic backlash" where family members are judged more harshly or according to inappropriate criteria, and become excluded. For a person in Eric's situation, the youngest, currently thinking of joining, a plan to prepare him for effective entry will be needed, if he decides to join. In many firms this is achieved by gaining work experience with another organisation. More generally, this firm needs to give a lot more thought to how it can best recruit, induct and retain next generation members most effectively. This should be transparent and sufficiently formal. This is predicated on the assumption that the family believes that family members can add special value to the firm on the basis of their family status. If this is the case, then it should be an openly communicated policy.

The challenge for the next generation is how to make such difficult career decisions. Mentorship and coaching can be helpful. Once they are employed by the firm, perceptions of nepotism can be dealt with by 1) building personal self-confidence, 2) recognising the strengths that come with family membership, 3) tenure and experience and 4) a programme of developmental projects to build expertise and credibility.

Inclusion versus exclusion

In this case, we see how families can divide into "in" and "out" groups and how this can spread into the wider business.

Many family firms struggle with the problem of aligning different interpretations around control or compensation, in relation to ownership and employment. This may stem from a lack of clarity about the boundaries between work and ownership, or it may be the outward expression of unresolved rivalry between family members. The classic means for tackling this confusion is to introduce a governance structure that separates employment from ownership, and gives a separate voice to family interests. However, if the core of the problem is primarily to do with family relationships, a good structure may have limited power to resolve issues. A structure can contain and manage difficult challenges, but to resolve them the family may need to engage in more focused in-depth psychological consultation.

The "difficult" person

We have described how it often happens that one person ends up mentally carrying the disgruntlement of the rest of the family. In this case, it seems to have ended up with sibling rivalry fuelling the "disaffection" of one person.

Family members can either be excluded or exclude themselves from the council, and the situation becomes divisive for everyone. For the members of the council who find themselves in this situation, these issues need to be addressed in a sensitive way. Continued attempts to ensure that the "disaffected person" does not feel excluded are of utmost importance, which family members have acknowledged in this case. The challenge is to a) refrain from blaming or dismissing the difficult person who is behaving out of turn; b) recognise that what is being expressed is not just a property of that person, but reflects the wider group culture; and c) to keep the communication lines open.

Next generation as non-exec

Victoria, like many next generation members in family firms, faces the challenge of growing in her role and being effective as a non-executive director. For her and others in her situation, this involves expanding the breadth of her experience – absorbing industry-relevant literature, acquiring insights into recent developments in technology and business, so that she is able to come to meetings fully prepared. It may involve consulting with other managers prior to board meetings, having the courage to challenge other board members, and taking the role of the "informed voice from outside" by asking difficult but pertinent questions. Because of their privileged position, it is especially important for family non-executive directors to leave their egos at the door, not appear to import their personal agendas, and to focus on the performance of the board and the business.

The remit of the family non-exec should be clearly documented, and answer such questions as: How should they be elected or recruited? Are they members as delegates speaking/acting on behalf of the family or as free individuals? Does their remit entail any requirement for liaison with the family or other groups? If it does, where, when and how should this take place? How are they to be evaluated? How long should their tenure be?

CASE 8: Manufacturing Co

Summary

Category: Medium cousin consortium
Turnover: £39 million
Number of employees: 1,250
Industry: Manufacturing

The next generation situation – characteristics at a glance:

Support structures for the NxG: Medium	**Development stage:** Cousin consortium (G4)
NxG ownership: Problematic ownership transfer; 15–20 years back; divorce-related issues	**NxG professional involvement:** Scarce
Issues of succession: Letting go; imminent retirement of chairman	**Family cohesion:** Pockets of strong cohesion (medium to low)
Sibling rivalry: Causing rifts **Sibling alliance:** In pockets	**Family incident:** Tragedy in the family two generations back; antagonistic divorce situation
Inclusion vs. exclusion: Exclusion of some	**Conservative vs. liberal (tolerating difference in families):** Polarised; male-female differences
Inter-generational authority (power distance): Medium to low	**Emotional ownership:** High emotional investment
Other family dynamics: Three family branches; adherence to "bloodline" precedence; status in the family regarded as important	**Other issues:** Business facing difficulties in terms of profitability; safeguarding the youngest generation's interests

From Manufacturing Co, we spoke to five out of six next generation members, and two spouses. Janine (40) has a degree in economics and philosophy, Graham (39) has a manufacturing degree that relates to the business operations, Cedric (31) has a degree in politics and international relations, Joanne (38) and Frank (23) have degrees in other subjects and John (26) has an NVQ in business.

Issues facing the next generation group are primarily associated with business performance and family dynamics. The retirement of the immediate past family chairman, who recently stood down as chairman but continues *to work in the business, is a major change that the next generation has to deal with. Graham is cementing his leadership position in the face of his father's reluctance to let go. Cedric has a separate career; his earlier interest in working in the family business was frustrated due to "sibling rivalry" and miscommunication. Janine would have liked to be part of the family firm, but as a woman, this has not been an option for her – instead, she is involved via the family council. Frank has not really considered working in the family business, but has an emotional attachment to it via his ownership, and particularly in his role as a trustee. John has also chosen a separate career though he has worked in similar businesses.*

Manufacturing Co is a cousin consortium in its fourth generation. With a turnover of £39 million, the company has three product streams in their manufacturing operation.

Despite an industry recession and its vulnerability to fluctuations in seasonal demand, the company's growth has been steady, but now they are seeking better performance over the coming years. Business profitability has been quite low recently, but there is a good opportunity for the business to apply itself in the market place, particularly due to its strong brand. The challenge is to remain responsive to market trends. Other challenges faced by the company include major family issues to be reckoned with and shareholder disunity is seen as a potential threat to the future of the business. The firm is facing an imminent generational transition when the immediate past family chairman is due to retire, which is seen as a complicated emotional process.

Board function and structure

Manufacturing Co has a two-tier board structure of a main board plus three sub-boards, each dealing with the different manufacturing arms of the business. The main board has members of both the third and the fourth generation – including the immediate past family chairman in G3 and his son as the current MD in G4. The remaining members are non-family, including two divisional MDs, a finance director, one non-executive director and a non-executive non-family chairman. Sub-boards are entirely composed of non-family directors, and chaired by the MD. Next generation professional involvement can thus be said to be *scarce*. In the history of the business, only two family members have ever worked in the business at any one time.

Support structures for the next generation

Support structures for the next generation are what we classify as at a medium level. A family constitution and an active family council help guide the family.

These structures outline policies specifically relating to the next generation. The family council is made up of fourth generation members only. Third generation members receive the notes from council meetings, and can attend by invitation. The constitution describes family values, and the arrangements by which family members can work in the business. It also outlines the importance of educating shareholders with regard to broader business activities. Next generation members (shareholders and those who are about to become shareholders) also attend annual general meetings, and a family social event is run each summer for all family members.

Ownership and wealth

Eight individuals own Manufacturing Co, plus a small nominal holding belonging to the immediate past family chairman's (second) wife.

Members told us that a feelings of responsibility, pride and an appreciation of the legacy are associated with the ownership of Manufacturing Co. They are conscious and respectful of the hard work and sacrifices made by previous and current generations.

> *"Means a lot; for emotional reasons more than anything else. Financial return has quite a small significance…I use the word guardianship…People who are in my memories have worked or are related some way – at one point the company was a big employer, retired people who knew me as baby." (G4 member)*

> *"I don't look at it as money, I consider as being part of the family and business in the future." (G4 member)*

Attitudes and feelings towards ownership are also associated with the fifth generation, as ownership is proposed to continue in the family.

> *"…for our son, having the fifth generation of the family name…feels good to keep [the name] alive…Ancestors worked hard develop it…a feeling of responsibility, to be interested even now when it is not doing very well, and through difficult times in the past." (G4 member)*

Wealth and money are not central to how the next generation experience their ownership. However, there are members for whom a low dividend policy has been a source of frustration:

> *"What is the point of having a family business…if there is no benefit? It has brought an awful lot of pain." (G4 member)*

> *"I'm bitter about something – there was a share buy-back ten years ago – do they want to push us out?...The company was cash rich at the time – [opportunity to] prune the shareholder group – I feel bitter to [have to] sell shares in order to be able to buy a house." (G4 member)*

A share buy-back was carried out in order to reduce the number of distant and less emotionally involved family members. This enabled some shareholders to exchange a hard-to-value asset for cash. Although some family members have a bitter experience of it, others see it as having been a necessary and good thing for the business.

There is also ambiguity in how some members relate to the ownership:

> *"Lots of complicated emotions...It [is] out of my control...I [am] not involved, have not been contributing to it..." (G4 member)*

Ownership transition

It is said that the company has come between some of the siblings, specifically in one family branch. However, family circumstances also created the schism, including the divorce and the age difference between siblings. Another cause was the way in which shares were passed on from the previous generation. A larger proportion of the shares were handed to the current MD, which *"caused a big issue with his siblings"* in that family branch. Family members not working in the business were given other forms of compensation, in order to maintain effective control for the working family member. For some of the recipients this may not be regarded as equitable. This perception of fairness is an issue on which there are widely differing views among the parties.

The rift between the siblings is also related to the fact that both the brother and the sister of the MD have been rebuffed in their desire to be involved in the business at some point. Janine, the eldest child was rebuffed because she was a woman and Cedric, who is eight years younger than Graham, the MD, approached him in the past about getting a job in the family firm, but was rejected, causing him to be *"completely [put] off working in the family business".* Again we encountered different views of this situation, one party attributing the rejection to sibling rivalry, the other pointing to objective deficiencies in experience and training in the applicant. There clearly is a pressing need for people to master the difficult art of viewing and appreciating the perspective of others with whom they have differences.

Difficult events in the family history

A number of related difficult events in the family past serve to explain some of the difficulties that family members are experiencing in the present.

Family traumas

Going back in the history of the family, there have been traumas – one suicide and two divorces – that have left a far-reaching impact on the families. The suicide is a reminder of how much heartache there can be in the heavy responsibility of running a family business; in this case a contributory cause was believed to have been excessive stress. The divorces impacted on both family branches, materially and on the quality of family relationships. The fallout included a number of decisions about ownership and inheritance that were highly controversial. As some of these early family dynamics transfer into modern day sibling relationships, unequal and different outcomes for family members are a source of jealousy and feelings of disenfranchisement. In the trio of siblings in one branch, the youngest brother has ended up on the outside, facing a mutually supportive *sibling alliance* between his older brother and sister. The wide age gap between him and his older siblings seems to have contributed to the difficulty in reconciling the situation.

Graham, the eldest brother, is described as taking on the role as *"head of [one half of] the family"* after the divorce, changing the pattern of sibling relationships.

> *"A nasty divorce in childhood…hugely influenced the situation today – personality [conflict] is not uncommon in family business. The impact on the three of us is enormous – particularly Graham, he is the older one."*
> *(G4 member)*

Trying to unlock locked positions

Although there is a sense that the family is locked into positions with deep historical roots there is some will to set things right. However, the feelings remain inconsistent, some plaintively asking *"why can't we just work together instead of competing?"* Yet, these feelings appear ambivalent and thus retain a sense of loss, anger and resentment at the same time.

> *"My father, a long time ago, thought it would be nice if we all worked together. I remember him saying that he's given up hope. I never closed that door; I just opened another one [in terms of being independent from the firm]." (G4 member)*

However, wishing is not enough and the father resisted governance reforms for some time, and it took five years of lobbying for the MD finally to persuade his father that the family needed a family constitution and a family council.

Expectations on next generation members

Graham, the MD was expected to work in the business. He was not the eldest sibling, but as the first born son he took over, as with previous generations under the norm of primogeniture. In fact, his entry into the firm was a difficult personal choice that he did not make lightly, leaving a career outside the company in obedience to what he saw as his duty to the family and the company. As another member said:

> *"The pressure was enormous…I have enormous sympathy for him."*
> *(G4 member)*

Younger next generation members are conscious of little or no expectations in terms of joining. The issue faced by the wider shareholder group is related to having a voice and living up to a responsibility of improving the business in the future. It is challenging for shareholders to appreciate these responsibilities, and prevent active involvement from tipping over into interference in the running of the company.

Succession and inter-generational relationships

Succession to the MD's position was described by one member as a *"poisoned chalice"*. Still reluctant to relinquish power, Graham's father has been *"hanging on"* for a number of years, although his retirement is now in sight. The struggle to take over the leadership position has been difficult for the business and the individuals involved, particularly Graham. In dealing with this difficult relationship, he is supported by his sister.

She too has found difficulties in the inter-generational relationship, experiencing frustration and disappointment in her father's *"chauvinistic"* attitude, which effectively kept her out of the business.

> *"It is impossible [to talk] with my father, he doesn't hear what I say. He is very thick-skinned…My father has no expectations at all of women."*
> *(G4 member)*

Inside and outside the firm

For those who are not working in the family business, business functions such as the bi-annual dinner dance can be experienced as slightly awkward:

> *"…because we're not in it, not involved…it is not easy to be there, dressed nicely…" (G4 member)*

For some, the feeling of being an outsider seems to be heightened by this experience, yet, family shareholders' visibility at such events has for many years been seen by the employees as an expression of interest and involvement. Indeed, it is one of the few ways in which they interact with the family.

In this complex culture, there persists a strong sense of loyalty to the business by the shareholders who do not work in it. They continue to want to be close to it. There is something very precious yet fragile about this family business.

> *"…it's not like you can walk away, you're tied in the company." (G4 member)*

Family council

The family council was set up recently by the fourth generation in part to enable the transition of the business from one generation to another. As such it excludes the participation of current generations, unless they are invited.

> *"[my father] expected to be on [the council] – to form the council without him on it was a huge achievement. He tried to chair it, I had to say, 'You have to let me chair' – and he was in the same room. It was a [huge] learning exercise." (G4 member)*

The council, though valued for its attempts to reconcile the schisms in the family, still has a way to go, by the report of some members.

> *"The wider family is not a cohesive group – only by the council was it given a voice. Attempts have been made to resolve the family disunity through the council, but perceptions and approaches have at times been so miles wide apart that the outcome has not [yet] been fruitful." (G4 member)*

Future challenges for the business and the family

The future contains a powerful set of contradictory elements for this family business. On the one hand there is the strong motivating factor of loyalty to the business and a determination to continue investing in it. Perpetuating wealth, striving for success, profitably satisfying customer demand and providing employment for the community are their shared values. Yet they remain haunted by the tragedies they have seen in the past, with fractured relationships barely repaired. Family issues tend to dominate business issues within the family. Contributing to this has been a paucity of communication about the business:

> *"Communication has for too long been one of the greatest problems in this family and business…due to only very limited involvement in the past, many shareholders still have a minor understanding of the actual business." (G4 member)*

The family versus business question is raised in the quotes below:

> *"…[I'd like to] take the business forward but in the back of my mind –*

opportunity to sell it I suppose – frightened of the pain it caused…[Need to] ask whether it's worth it. I think more people in family businesses [should ask themselves] what's the point? That's why my family is in a mess. I've come a long way until this interview with you." (G4 member)

"I am mindful if it is beneficial for families to have a business…the bigger picture is more important – I believe in family businesses, I'm loyal to them – but I don't believe in human cost really." (G4 member)

A persistent problem seems to be the tendency to attribute blame and not letting go of the past. The challenge for the next generation is clear: to achieve a new mindset that acknowledges the past without attribution or blame, and seeks to move forward in a spirit of positive problem solving.

Commentary

The Manufacturing Co case raises two issues that recur in many family firms: 1) the challenge of sibling relationships and 2) schism between family and business.

Difficult sibling relationships

Sibling rivalry is not inherently bad, but if people slide into entrenched positions that are rigid and tied to traumatic events in the family's past, then rivalry can become a blockage. There is no easy way of untangling entrenched positions between siblings in a core family group. So called "bad" behaviours can become automatic and there is an unconscious need to keep engaging in them. For the individuals involved, it is important to figure out what this need is in order to get rid of it. The message of this case is that it is not enough just to regret the loss of healthy family functioning and to desire a solution. The key is to release the strong emotions that keep the entrenched and locked positions in place. The individuals concerned need to come together as a group with a *shared and explicit* commitment to work through the difficult issues and change their behaviours.

It is neither surprising nor uncommon for both bad and good behaviour patterns to keep replicating through generations, with rivalries and hostility passed on to the children of siblings or cousins. The end result can be that family members cut off completely from each other, because the interaction is so frustrating. It is always challenging to rise above one's own needs and start thinking in terms of the family needs, especially when one feels others' positions are entrenched. However, seeing things from the other person's perspective is exactly what is necessary. It is the first step towards family unity.

Family versus business

In Manufacturing Co, two members ask whether it is worth continuing in business together, since it has caused so much pain for the family. From their point of view, family issues seem to dominate the business, but at the same time, the business has dominated the family. In this situation, the question is: what does the business represent for family members? Identifying the common denominator or value system that family members are willing to commit to is a starting point. In Manufacturing Co, the notion of legacy is very strong. There is also a sense that the legacy is associated with troubles that the business and family have overcome in the past. Overcoming troubles, like the previous generations, may be part of the underlying motivation to keep on going.

Family businesses in troubled sometimes have to face a tough question – what comes first, the family or the business? Where is the cut-off point and how much can either take? The prevailing attitude is that selling the family business equals failure. It might not be the best outcome in this case, but it is worth keeping in mind as a consideration against which to assess the cost of continuing to fail to solve long-standing and recurrent problems. Also, it can be an incentive to find the path to constructive and lasting solutions.

PART III – Issues and implications: How can we help the Next Generation

This first systematic investigation of next generation issues has led us to a deep seam of rich insights. As we expected, each case study presents a unique set of challenges and opportunities, yet we have found several common threads running through them all. This opens the way for more systematic and definitive research on the topics we have uncovered. However, the present study already contains a wealth of ideas and implications for family business, which we shall outline here. First, let us note three guiding principles:

1. There are multiple perspectives on family business issues. They can be viewed in terms of the interests of the firm, the family and the individual. Often these interests are aligned, but sometimes not. What is in the interests of one party can be contrary to the interests of another. These dilemmas are part of everyday life in family business, and resolving them is a key to success.

2. Resolving dilemmas and solving problems should not be a lonely activity. The more difficult they are, the more need there is for people with different perspectives to come together to find a common framework for understanding and action. This demands that people master and practise fundamental communication skills – listening, questioning and being able to see from the perspective of other parties. These are the building blocks of trust – the most valuable resource in this arena.

3. The steps to trust-building are accessible, but not always easy to take. This is an area that is suffused with hot emotions and where trust can seem a long way off from where people are now. At such times the input of a detached, impartial and wise third party perspective may be needed. This can be the professional advisor or consultant, the elder statesman or woman of a business, a personal coach and the non-family non-executive. Timing is key – picking the optimum moment to seek input. Unfortunately, all too often, the senior generation waits too long to address difficult issues. It is also important to remember that advisors are part of a tool kit, not a set of crutches. They are to be used as part of a strategy that is ultimately aimed towards increasing self-reliance.

So the reflections that follow are written for multiple groups:

- The senior generation – the stewards of the next generation.
- The next generation members, in and out of the business, owning and not owning.

- The non-family executives running the firm.
- The professional advisors who support and guide family business decision makers.

A: Ties between Next Generation members and the firm

1. Emotional ownership

We are convinced that emotional ownership is a key idea in understanding family business continuity. If a family business is to realise its value for all stakeholders then regardless of what other stake next generation members have in the business, some sense of identity with the firm and its business are indispensable to its continuation as a family firm.

In the case studies we have seen many varieties of involvement, including some quite conflicted, like the individuals in Holdings Co who felt guilt and being "undeserving" of owning without working in the firm. In Property Co we saw people almost ashamed of their family connection – reluctant to admit to employees their status as owners of the business.

But in these and other firms there was plentiful evidence of emotional dividends flowing to people without any other stake in the business: loyalty, pride, gratitude, and the symbolic value of association with the family name.

Several best practice observations can be made about how to keep these positive factors alive and not let the negatives intrude[7].

- Manage the boundaries between the four different categories of association with sensitivity and skill. i.e. between people who own but who do not work in the business, those who do both, those who do neither, and those who work in the business but do not own. All have a legitimate interest in what goes on in the firm and this needs to be recognised in how they are communicated with, and how family and business decisions are made.
- Create opportunities for education, insight and experience in the family firm, however avoid pushing too much information onto the next generation. Study visits, summer jobs and gatherings can all help to generate a spirit of personal responsibility, choice and attachment. Remember this is not the indoctrination of passive bodies, but the involvement of active learners.

[7]Most of the implications we list in each of the following sections arise directly out of the case material. We also drew on the insights of next generation forums that have taken place under the auspices of the Institute for Family Business, as documented in the IFB *Yearbook*.

- Make selective use of mentoring and coaching. Different kinds of support are needed for next generation members in our four categories of association. It is especially important to help individuals manage relationships within the family across the divide between the ownership and those members working in the business, and in relation to non-family employees in the business.
- Conduct an active inquiry about the interests of family members who seem emotionally disengaged. There may be good and acceptable reasons for this. On the other hand there may be feelings of rejection, alienation, disenchantment and grievance that need to be addressed. The firm may be intangible to some distant family, a gap that can be closed.

More work is needed in this area – especially to find out what are the key elements in emotional ownership. An important part of our future work will be on this theme.

2. Inclusion versus exclusion

The growing child becomes aware of categories and boundaries in the world around them. One of the earliest and most formative is the family. Cultures differ in how they present this reality – from the exclusive tight nuclear model of sections of western society, through to the inclusive clans of Africa, the Middle East, the Asia Pacific region and parts of the Americas.

This forms into a highly practical set of issues around expectations, rights and obligations because of one's family status. We saw this in the case of Specialist Metals Group (SMG), where there was debate about how to include an estranged cousin into the future planning for the firm. We also saw in the Manco case a decision to limit the number of family working in the business, and the challenge this raised for how to involve those who were left on the outside.

Learning points include the following:

- Develop clear expectations about who is to be included in which processes. This is not easy in grey areas such as in the SMG case, where the company reverted to an "owner-managed" model. Here, cousins' positions were not as clear as they would have been had the company grown and developed in a more predictable fashion. And remember, this decision is best handled in a consultative manner, rather than top down.
- Find ways to involve non-working owners and other family. This should not be just a palliative for the sake of appearances, but because their input is needed for culture building within and around the firm.
- Beware of the elaborate family governance system that fails to deliver. Consult widely to get agenda items for family meetings that have real substance and importance for family members.

- Individuals need to learn with what it means to be an owner, who has a right to be informed but who does not to have the right to intervene in business decisions. Responsible ownership means awareness and respect for these boundaries.
- Recognise the importance of *feeling* involved. Raising emotional ownership can bring unexpected benefits in terms of next generation contribution.
- Ensure that the governance structure enshrines a clear boundary between family and business issues. Do not expect the governace institutions to solve emotional problems. They may require separate family counselling.

3. Perceptions of nepotism

This was one of the surprises of the study – how commonly next generation members are discomforted by their family position. In some cases, such as Specialist Metals Group, it is a case of heightened self-expectations, combined with a belief that these are shared by the employees. In others, such as Financial Services, the discomfort is internalised into a sense that all eyes are on you, watching and waiting for you to make an error. And in one case, Property Co, this even extends to a sense of not being accepted by other employees.

Possible measures and remedies include the following:

- Do a reality check on incumbent family members working in the business. The perception of nepotism may be more imagined than real. Yet the reality may be that next generation members working in the business face inflated expectations and even some resentment from non-family. This can be converted into a positive belief that it is a sign of confidence in the family business that family members are involved, and that family involvement is a form of cultural capital that can enhance the standing of the business. This is a message that needs to be internalised and communicated, as appropriate.
- Support next generation members in their personal development needs. Much of this is an issue of building self-confidence. This could involve career planning, coaching and mentoring. Raise the skills and competence of the next generation – engaging them in projects that help them stretch and grow. Employment outside the family firm can be a great aid in building expertise and credibility.
- Establish clear hiring and promotion policies. Back these policies with clear communications, directed to both the next generation and to existing employees, so that the merit of individual cases is transparent. If the company recognises the value of family leadership, then that should also be communicated to the rest of the firm.
- Manage expectations. Do not expect perfection. There is no learning without experimentation. View next generation involvement as a mutually beneficial learning process.

- Build support groups. Next generation members can get a lot out of building their own support groups. This can be applied internally in the business and externally through professional networks and other groups.

4. Entry and involvement in the family firm

The mode of entry varies greatly from firm to firm, but also varies from member to member within the same family. For example we saw varying degrees of formality and informality in the introduction of next generation members to Transco. Services Firm had no policy but rigorous education, preparation and development of its people. Some report having no entry expectations at all, as in the Manco case. In Financial Services, some younger ones have to catch up, not having had the benefit of the kitchen table discussions. In Property Co we saw there was an expectation that people would join at a very low level, regardless of their skills. The power of the senior generation plays a part here.

In short there is extreme variation in the entry/involvement process. The implications are as follows:

- Make a decision about what kind of family firm you wish to be. Develop a strategy for involvement and introduction that is consistent with the model. This needs to be revisited periodically as the firm and family move through phases of growth.
- Consider the timing of involvement. A staged approach can be recommended from informal socialisation through to points of transition, when more formal invitations and opportunities for involvement are offered to the next generation. An ad hoc approach carries dangers of inequity and ambiguity.
- Explore what image next generation members hold of the family firm. Detached members may be ill-informed or even misinformed.
- Develop an educational programme for the next generation. Larger and more complex families should consider creating a bespoke education programme for successors. Exchange programmes between family firms can be a powerful means of reality sharing – helping to raise appreciation of the challenges of family business management and ownership.
- Entrepreneurial spin-offs from the main business (as in the Holdings Co case) can be a vehicle for learning and involvement. A family can form its own mini venture capital fund for next generation incubator projects. This requires a serious investment in raising the business knowledge of the next generation.

B: Family relationships

1. Succession and inter-generational issues

As we observed earlier, much has been written about succession. Yet looked at through the eyes of the next generation one gets a novel perspective, one that focuses primarily on the quality of inter-generational relationships. We have seen in cases such as Transco that some stress comes from major disparities in experience and skills. A gradual approach to emerging leadership, such as that enacted by Manco, is a model that many would like to emulate, but it has to be in step with life cycle and role changes occurring in the business. We have also seen cases, such as Manufacturing Co, where inter-generational authority issues are as yet unresolved.

Implications include the following:

- Succession planning should take place early, against all eventualities. People want clarity about process more than certainty about outcomes.
- The process should also include bottom-up exploration. Research should be made into the needs and emerging capabilities of the next generation.
- Doubts of the seniors need to be openly addressed. The senior generation often have misgivings about the competence of the next generation. There is also the fear of exposure that the seniors face with succession and the impact on their lives.
- Some competition within and between the generations can be healthy. It should be handled openly and sensitively. Take care to distinguish constructive rivalry from destructive envy.
- Emotional guidance and coaching needs to be on hand for next generation members. Such support particularly helps during ownership and management transitions.
- Senior generations should strive to be good role models for the next generation. This includes an appreciation of work–life balance issues and a demonstrable ability to delegate.

2. Sibling and cousin relationships

We have variously observed alliance, rivalry and open conflict in these relationships. The causes of difficulties we have found in these cases include differences of dominance, access to resources (such as a job or shares in the business), and status in the family group, as we saw in both the Property Co and Services Firm cases.

Cooperation can arise when siblings offer support to each other in the face of difficult parental relationships, as we saw in Manufacturing Co.

Some of the lessons are as follows:

- Open communication is imperative.
- Where there is rivalry between two siblings there is scope for facilitated

dialogue. Communication is improved when people are able to appreciate each other's realities, rather than insisting on trying to arrive at an objective view of who is right and who is wrong.

- To create trust think teamwork, and do the things that foster team-building. The following strategies can help: setting shared goals, consensual division of responsibilities, open communications, avoiding personality clashes, and celebrating successes.
- Siblings can support each other by challenging each other's perspectives. However they should leave their egos at the door.
- Cousin relationships are often underutilised because they don't know each other.

3. Conservative versus liberal

In other research[8] we have found that ideologies and style can unite and divide families. We have seen that a climate of tolerance of difference can be cultivated. However, families are not easily categorised. Progressive attitudes may be seen in some parts of the family and the business, but not in others. Our cases show wide variation on this dimension. For example, in a single case – Services Firm – we see simultaneously, enlightened flexibility in husband and wife gender roles so as to balance the needs of home and business, but widely differing value systems keeping other family relationships apart. Some are adapting to this reality, as in Manco, where people were working to reconcile emerging differences between family members, thus far with mixed success.

Implications include the following:

- Discussions of values and style are useful in every family business. Everyone needs a coherent idea about what it means for them to be a business family.
- Reflection and sharing of perspectives should be a feature of all family meetings.
- Breaking down traditional gender roles – consider part-time work, flexible hours, child care arrangements – gear both male and females in preparation for joining/owning the firm

4. The "difficult" person

Any of us can be a difficult person, but in a family attention can focus unhealthily on a single individual. We saw in Property Co the target was a disaffected sibling and in Services Firm it was the dissenting sister. This is not mere scapegoating – the issues go beyond labelling – but there is a risk of misplaced focus. In many cases the presenting problem seems to be around a specific personality, whereas

[8]See Björnberg, Å., & Nicholson, N. (2006 revised & resubmit). "Family climate: The development of a new measure for use in family business research". London Business School working paper (submitted to *Family Business Review*).

in fact the person may just be the vehicle for emotions that could be expressed by anyone, i.e. they are reflecting a wider family culture dynamic.

Implications include the following:

- Difficulties are easily translated into matters of right and wrong. But, in the absence of understanding, a justice perspective becomes a blame perspective. Families need to analyse the causes of their own discontents dispassionately and free from moral strictures. They may need help in doing this.
- Feelings and thoughts do not just belong to individuals – they emerge from the group culture. In other words, rather than thinking the person is the problem, it will often be more helpful to see negative expressions as symptoms of failings of communication, involvement, recognition and a host of other deficiencies that can infect family culture.
- No matter how difficult a person is, it is vital to keep the communication lines open. This applies even if some parties may reject contact at first.
- Repair relationships by making a shared and explicit commitment to work through the difficult issues and to try to change behaviours.

5. Family versus business

For family businesses it is imperative that people keep a sense of perspective and priority, lest they find themselves in a mutually destructive marriage of systems – family and work. The most everyday challenge is work–life balance, and in some cases we have seen the senior generation setting an example that is ultimately destructive and off-putting for the next generation. In other cases the costs of running a business to the psychological health and unity of the family are high, and take individuals and families to breaking point.

Implications include the following:

- If there is no joy in running the family business, then this reality needs to be confronted. The question may be asked should there be a transision from being a family business to becoming a business family, i.e. keep the business interests at arms length from the family, but maintain an ownership interest. Or should an exit be considered.
- Make explicit what are the aims of the business and what are the goals of the family. The costs of alignment may be unacceptably high. The next generation should have a very active voice in such debates.
- Governance systems can aid communication. But it requires time out from business-as-usual discussions to give adequate airing to fundamental issues.

6. Spouses

Spouses don’t just have to be the “chief emotional officer” around the dinner table. They have an important and legitimate voice around many key decision areas, such as succession and ownership.

Implications include the following:

- If the policy is to include spouses in meetings etc., make sure they have their own independent route to acquiring information. Their spouse should not be the sole conduit to provide information.
- Consider electronic forums. Password protected websites to which spouses and other family members can gain access (as practised by Financial Services) can be helpful.
- Keep spouses informed about ownership plans and decisions. They have legitimate interests too.
- If spouses are excluded from family governance systems consider setting up alternative channels for them to ask questions or make comment.

C: Decision-making style and process

1. Autocratic versus democratic style

It can be unsettling if the leadership style and culture of the firm fluctuates between extremes. In Transco we saw the successful use of a "one captain" model, while in others there has often been a shift, following succession, from autocratic to a more delegated authority.

An evolving culture is an inevitable consequence of transitions between generations, but what matters is how the new style fits the demands of the situation.

Implications include the following:

- Read the situation and adjust the norms of authority accordingly. In particular consider that high-profile leadership may have one effect on the business and quite another on up and coming family members. You don't have to use one style in all circumstances.
- Delegation has to be practised and carried out methodically. It is more than just allocating tasks – there has to be explicit agreement about responsibility, resources and accountability, as well as what monitoring and support will be given.
- Empowerment means raising the capability of junior people – a mixture of coaching and delegation against a background of trust.
- Enhanced interpersonal skills are needed on all sides. The next generation needs to learn how to influence and communicate with the senior generation as much as vice versa.

2. Procedural versus distributive justice

For the next generation, the notion of "procedural justice" is important – those who do not have authority but want a voice because they are affected by the decision. Being part of the decision-making procedure is in many cases more important than controlling the actual outcome, as we saw in the Specialist Metals Group case. Disappointment also needs to be managed when people are turned down, as in the Manco case.

Implications include the following:

- Raise awareness of justice issues, and the importance of both types – procedural and distributive.
- Accountability and transparency need to go hand in hand. This applies especially when it comes to decisions that affect people's lives, welfare and futures.
- High involvement strategies often forestall controversies over fairness. The next generation need to have a sense of co-ownership of the governance systems that apply to them.
- Meetings need to be well conducted with good active listening. A climate of open debate needs to be created where issues of justice can be raised without fear.
- Clarity and transparency about how ownership will be transferred between generations is a critical issue. Shareholder agreements often do not capture enough of the key concerns of the next generation.

3. Next generation involvement in governance

In a business that is going to be transferred between generations the leaders have the roles of "stewards", i.e. leadership is a burden of trust and a compact with the future. This was especially well-developed as a perspective and a set of practices in the Holdings Co and Financial Services Firm cases.

Family governance is more than a set of rules for business–family interaction – it is also the administration of a legacy of what we can call "family capital", i.e. the intangible value that the family identity adds to the business. This means that it enshrines a vision and a set of values that act as a compass for the strategic direction of the family and the business.

The implications are:

- The vision and values do need to be discussed and if possible written down. These should not be empty and vague statements or slogans, but ideas that really define what is unique in the family firm and what it stands for.

- The next generation need to be actively involved and encouraged to take initiatives. Activities can include the running of family assemblies, setting up special next generation interest groups, editing newsletters, helping to codify and write the family business history, acting as ambassadors in the community, playing a role in formulation of social responsibility or philanthropic initiatives, and helping to oversee the family office, if there is one.
- Next generation members often graduate to non-executive director roles in the governance system. This poses a challenge of knowledge and competence, such as:
  – broad industry and business knowledge
  – assertion and facilitation skills
  – communication skills
  – willingness to be evaluated and courage to challenge
  – understanding of the key drivers of organisational performance
  – time and effort to prepare.

Conclusion

We have covered a lot of ground in this first study of next generation issues in family firms, but more work remains to be done. By focusing around eight case study firms we have been able to take an integrated firm-centred and family-centred approach. It has elucidated a number of key dimensions, challenges and practical implications for all the parties concerned.

Questions remain about what are the key factors that motivate individuals to seek or avoid involvement in family firms, and what kinds of future young people would like to envisage for themselves, their family and the business. Future research will turn the insights of the present study into a systematic survey of the next generation members across a much wider domain.

It only remains for us to thank all the family members who so generously gave their thoughts, ideas, insights and reflections that have made this study possible.

The **Institute for Family Business (UK)** is an independent, not for profit organisation supporting a dynamic family-owned business sector in the UK through education, research and advocacy. Our educational programmes offer family business owners, their families and directors the opportunity to exchange knowledge and best practice in an atmosphere of confidentiality. We are a voice for family firms and our aim is to highlight the vital contribution this sector makes to the UK economy and the issues that family firms face. Independent research commissioned by the Institute underpins the educational programmes and advocacy in support of family business.
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The **BDO Centre for Family Business** was launched in 1993 and is the UK's leading organisation dedicated to serving the needs of the family business community. Its work involves guiding and advising family-owned businesses on how to structure and organise themselves in order to mitigate against the common pitfalls and challenges they face. BDO Stoy Hayward generously supported this report.
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Institute for
Family Business

Ready, Willing and Able?

The Next Generation in Family Business

Nigel Nicholson &
Åsa Björnberg

What does "Ready, Willing and Able" mean? It means choice – choices by owners about what kind of family business they want to build and what kinds of futures they wish for their successors. For the successors it means choosing a role in relation to the family and its business. Family "climate" and the degree of emotional as well as financial ownership are key factors that help influence the choices that are made. This report is the first to draw attention to these important and complex questions and sets out to capture the voice of the next generation of family business owners.

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