

# Succession: A no-drama approach

BY JANICE DIPETRO

**E**very family business has a unique narrative with fascinating characters. There's the founder, whose vision and values originally defined the company. The founder's legacy directly affects the members of successor generations. Some may wonder if they have the expertise to lead, while others may question their parents' or grandparents' business decisions.

Then there is the supporting cast: the brothers, sisters, spouses, cousins, married-ins and non-family employees. Many will be concerned about the company's future and their personal wealth. Clearly, you have all the elements of a compelling drama.

Compelling or not, drama isn't a great business strategy. An extreme example is the long-running feud between family members who controlled Market Basket, a New England grocery chain. The company lost \$583 million in sales and was targeted by employee and customer protests while two cousins, both grandsons of the founder — one a board member, the other chief executive — publicly vied for control of the business. The dispute ended with one cousin buying out the other and retaining control of the supermarket chain, but not without losing millions of dollars, enduring years of legal battles and permanently damaging family relationships, with the damage displayed in the media for all to witness.

Certainly, no business is conflict-free. However, it's possible to plan for transitions without these explosive dynamics, reducing the stress all around while keeping family relationships intact. There are numerous critical steps in effecting a successful leadership transition, including articulation and alignment of core family and business values and determination of the future business strategy.

For those fortunate enough to have next-generation family members with the requisite talent who are interested in assuming leadership of the business and willing to put in the effort, leadership development is one of the key steps.



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## Developing leadership in a family business

Publicly owned companies like PepsiCo and Johnson & Johnson have talent management strategies for their fast-track employees. Developing NextGen talent within a family business should be afforded the same time, attention and disciplined approach. However, family dynamics and ownership considerations create additional complexities.

For example, a controlling shareholder may want his son to run the business, even if the son isn't qualified, creating an understandable fissure in the family. Or consider the case of NextGens who show no interest in joining the family company, even if the business could use their talents.

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Communication assumes a significant role in a family business setting. In addition to managing non-family employees, leaders must understand how to interact fruitfully with family members, including those who are not actively engaged in the business.

It is important to ensure family alignment around a set of values that will form the basis of the business values, vision and mission. This alignment is often difficult to achieve, particularly during leadership transitions. One reason for this often stems from the departing leader's unwillingness to engage in such discussions. Other factors include a prospective successor's hesitance to address alignment discussions until they are securely in their new role or a reluctance to think or act outside traditional ways of operating, especially when family members are vying for the top position.

When goals are not aligned across the family or the business, a heavy burden is placed on the next generation of leaders. All the various perspectives must be respected and managed. Family historical experiences are very real and can affect a business in unexpected ways, as in the Market Basket story.

When the daughter of the second-generation leader became CEO of a successful food distribution business (one of our clients), her uncles and cousins struggled with affording her the authority to lead the business through the transformations it needed to remain competitive. Although she was highly qualified and up to the task, her family continued to view her as the little gymnast on the balance beam. They could not imagine her running the family business.

A leadership development plan for a family business addresses these unique challenges. It acknowledges each family team member's current set of core competencies and aptitudes and those that will be required in the years ahead, based on the needs of the business and family. It creates a path to acquire the skills necessary for executive positions through training, development and independent assessment.

A proper family development plan helps remove favoritism and biases from the leadership transition equation. The plan must be continually reviewed and may have to be modified to reflect changing circumstances in the family or the business, such as through death, divorce or divestiture of a major operating division.

### **Achieving leadership competencies**

Growing up in the family business doesn't mean a family member is ready to step into a leadership role. Effective leadership requires competencies beyond technical, functional and industry knowledge.

A leadership development plan for NextGens should begin with an honest assessment of their current skills and aptitudes. This should include a self-assessment, consideration of prior performance reviews, interviews with appropriate team members and other elements of a 360 review as appropriate. Candid discussions about the NextGen team member's personal aspirations for the future should also occur. All too often, the senior generation makes assumptions about NextGens' career goals without asking the NextGens what they think.

One key element of a NextGen's development logically includes direct experience in the family business. Before a family member joins the family business, we highly recommend a minimum of two years, and ideally five years, of working outside the family business. This experience is important in the development of a NextGen's skills from the perspective of not only learning how another business operates, but also what it is like to be a non-family employee.

It is vitally important that NextGens visit customers to understand why they do business with the family organization and the impact of the family firm on the customers' businesses. Consideration should be given to what could be done better or differently moving forward. All NextGen members coming into the business,

regardless of future aspiration, should spend time in the market to understand and appreciate the sales process and how their business makes money.

NextGens also must immerse themselves in the industry. Attending trade association meetings and events, visiting strategic partners to see firsthand how they conduct business, touring distribution channels (for example, if your family business is in the consumer products sector, tour an Amazon facility) — these experiences inspire new thinking and begin the process of developing meaningful business relationships. However, the development process involves more than just attending these events. Afterward, the NextGen should debrief with a leadership development adviser and should present these learnings to colleagues within the family business. This makes the visits more than just a "field trip"; it gives the NextGens the opportunity to share their knowledge and demonstrate effective analysis and organizational and communication skills, all of which are important elements of leadership.

As they develop, NextGens should participate in strategy sessions and even attend board meetings as an observer on a selected basis. Going to national programs and conferences focused on family-controlled enterprises, such as *Family Business Magazine's* Transitions conferences, is an excellent opportunity to spend time with other family business members and learn how they deal with issues affecting their businesses.

There's no set development timeframe for NextGens to be prepared to successfully work in the family business. Most of these development activities occur over several years. Each element of the development plan should be thoroughly articulated and should focus on core competencies, which should be assessed and mastered before the NextGen moves on to positions of increasing responsibility.

### **Leadership and management skills are key to NextGens' success**

As the world becomes increasingly complex and technology continues to drive innovation in the workplace, it's essential to formally develop NextGen leaders if family businesses are to remain within the family and thrive. Gone are the days when it was enough to grow up on the factory floor and rotate through various company departments without a formal leadership development plan.

Every family business must identify competency gaps and assist NextGens in developing leadership skills. This involves assigned readings, webinars, journaling, special assignments and more, all tied to the needs of the business and the competencies that will be required in the next generation.

Families with multiple NextGen members involved in the business might consider establishing a working

group of NextGens focused on strategic business initiatives. This allows the NextGens to experience working together and solving problems, developing individually and collectively as a team long before they become the executive leaders of the family business.

NextGen members must master important leadership skills such as:

- Data-driven strategic thinking and execution
- Communication skills, including being an active listener
- Ethical decision making
- Motivating people
- Assessing and developing talent
- Identifying conflict with family and non-family members and being able to resolve and compromise when appropriate
- Understanding risk and risk mitigation strategies
- Establishing a collaborative culture
- Understanding financial data and reporting

NextGen leaders also must understand the company's ownership dynamics and be willing to shoulder the responsibility of stewardship with a view toward the generations that preceded them and those yet to come. No small feat.

Our experience in working with family businesses over many years suggests that no one feels they start-

ed too early. In fact, many feel they may have started too late. Independent assessment is very important along with a formal development plan for NextGens. This approach has benefits well beyond the NextGens' leadership development. It provides a framework for the family business's future success and will enhance family communication and harmony as a result.

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Each NextGen development plan is unique to the business, the family and the individuals in the mix. A plan is somewhat fluid in that respect and can change over time as each of these elements changes. Leadership development plans are hard work and require objectivity, commitment and flexibility. The benefits of planning and taking time to implement the plan extend well beyond the NextGen members. The payoff is well worth it: a drama-free family business story with a happy ending.

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