



By using the 'four phases of succession' a family business owner can pinpoint precisely where the business is and then smoothen the transition to the next generation. But the key is to take painstaking care during the early phases

# Succession begins on the first day of work

By Dennis T Jaffe

TOO OFTEN, A BUSINESS OWNER comes to me with a problem of succession when it is too late. A potential heir has been working in the business, and the owner feels he does not have the capability to take over. A key employee has quit, because he doesn't feel there is a place for him in a family business. Two sons who work in the business aren't getting along, and he isn't sure that either one can take over the business without bloodshed. A son is concerned that his father won't give up any control or give him any responsibility in the business. And so on. I move into crisis intervention mode to try to straighten things out.

But I am always aware of a refrain going through my mind – why did they wait so long? Why didn't they talk about these things before? Why did they let things go so far with such different sets of expectations in each of the major parties? It often seems as if everyone wants to keep the succession issues under the table until they bubble up in a crisis. Things have simmered below the surface, with negative feelings being suppressed or ignored. If there is a lot of anger and resentment then the prognosis is guarded at best.

Successful succession is a matter of preparation over a long period – of both the individuals involved and the organisation. It is not an event or a coronation, but rather a process that, as the business environment becomes more complex, global and competitive, must be carefully staged and anticipated. The heirs to the family business are not receiving a prize; they are taking responsibility for a legacy. The mindset of the older and younger generations must be that the long-term security of the business rests in putting the business into the hands of capable, committed and prepared heirs who are ready to take the business to the next stage of development.

I have identified four phases of succession. By taking care at the early stages, you have created an environment where the



final stage is relatively easy to manage. If you don't begin to think about the next generation on the first day that your son or daughter comes to work, then your own job will be harder.

## Stage one: apprenticeship

When a potential successor first comes to work, it is rarely a conscious choice. In secondary school or before, your children are asked to help out. They are proud to be helpful after school and during the summer. If you listen, there are also

Family business succession challenges		
Stage	Business focus	Development task
1. Apprenticeship	Learn about business and other options	Get work experience Pursue education Discover passions and explore options
2. Career commitment	Develop credibility, expertise and track record in the company	Receive feedback about skill Learn all aspects of business Work with mentor
3. Two generation partnership	Develop teamwork with family members in two generations, and non-family leaders Set vision for family/business future	Achieve business results Overcome blind spots, deficiencies Develop network of relationships outside business Work with next generation team
4. Passing the baton	Strategic plan for future Settling of new leadership team	Refine leadership skills

take over the management, and perhaps ownership? What can they expect to earn? How will they be paid? What do they have to produce?

These questions are difficult to answer, but if they are not discussed, then the result is that each person has their own expectations that they never check out. Views can be wildly different, and eventually lead to conflict when one or the other finds their expectations are not being met. These conversations are hard. They involve talking about quality of work, about the dream of the business owner, and the feelings of different siblings. They are especially difficult if there is more than one potential heir. Increasingly, heirs entertain the possibility of a sibling partnership to run the business,

opportunities for conversations about what it might be like if they wanted to work in the business, and even about your dream of passing it on to them. If you have several children, the question of how many of them can find a place in the business will arise. The key is to discuss these issues, making it clear that the future is open and that you have a long time to work on these issues. Making your expectations clear early on will define their own choices and direction.

The key conversation you need to have with your children is the need for them to develop their skills and find their passion. It is not enough to have opportunity, they have to demonstrate capability in running the business. That comes from education and varied job experience. A young adult who enters your business without having worked anywhere else is severely limited. They may never know what other options are available. They may be trapped in a gilded cage, and fear the outside world. Or they may have no idea how other people run a business, or how competitive and difficult work can be. They may lack self-esteem, so by receiving a paycheck on their own, and meeting a challenge, they develop a sense of their own worth and skill.

The development task at this stage is for the young people to discover what they really want to do, before they settle into the business. Their wealth brings a wealth of possibilities, and they need to be encouraged to explore them. Also, they need time to learn about themselves, to escape the power of the older generation over them.

#### Stage two: career commitment

At some point, a prospective successor shifts from working on a casual job, to working with the possibility that this will be their career. The person makes a commitment to the business, and expresses a desire to have an impact. Several things must be accomplished at the time of career commitment. First, the different expectations have to be shared. Do they expect to be given the business after a period of time, or to have the option of buying it? Will the business be shared with other siblings who may not work in it? What do they need to do to be eligible to

while traditional entrepreneurs feel they must name one person as the leader. What can in-laws, or women, expect? Is there a double standard? What if they take some years to work outside the business, while a brother or sister works there from day one? How are the different sets of experience considered? By talking up front, you can keep runaway expectations within bounds.

If there are several people, or the business is large and complex, or there are several family branches, I recommend that expectations for family employment be made explicit, and be written down. This means a family will have to come together regularly to work out the rules for the incorporation and development of the next generation. The alternative is for family members to feel they face a Byzantine court of family intrigue, rather than a business with clear goals and direction.

On the developmental front, making a commitment to the business marks the start of a period of intense personal development. The young heir should work with a mentor, and develop a plan for professional development, including education, feedback and conscious attention to skill development. They should continually ask, "What do I need to lead this business and the family in the next generation?" Every year a family member should check in with other family members and set some milestones.

This stage develops through several steps. The potential successors may be put in charge of new business ventures, initiatives, marketing plans, or stores that offer them a chance for real responsibility. There will be candid evaluations of their successes, and their areas of development. They should also have a chance to learn every phase of the business – to see the big picture, understand the financials and be an increasing part of the decision making. The mentoring and support they receive from their parents and other key older employees, is one of the major satisfactions that next generation prospects have during this often prolonged stage of development.

The matters of evaluation, roles and compensation are crucial. Family business scions may be too hard or too soft on their offspring. They may hold them to an impossible standard,

where they never feel they measure up, or they may be so forgiving that the heir never learns discipline and delivery of results. Neither of these poles allows the heir to develop effectively. The one pole promotes rebellion, anger or departure, while the second fosters an insecure or dependent heir who is not capable of making tough choices or seeing new directions. During this phase it is most important that the evaluation and promotion of heirs not be just the purview of the patriarch, but rather a shared decision of the leadership team, including the board. Generally, family members develop best when the parent is not the sole decision maker.

Within the business a family heir expects to be on the fast track for promotion, but the track should not be so fast that the young executive does not have the time to develop solid relationships and achieve clear results. As a young person moves through the business, the other employees will be checking them out to see if they can trust their skills and assessing what sort of leader they will become. A young person needs solid and lengthy stepping stones to have enough time to develop their own team of young leaders, and become credible to the company at large.

#### Stage three: two generation partnership

The longest period of succession is one that rarely gets attention. As people live longer and are less likely to want to retire, there will be many years where two generations work side-by-side as partners. Not equal partners by any means. But the partnership has to be dynamic and have a direction of movement. If you are capable and energetic, how many years can you keep one job, or be an assistant manager? How long before you want to exercise more responsibility?

This intergenerational partnership must evolve, with control and responsibility flowing from the parental generation to the next. Yet many families get stuck in their roles. Dad (usually) likes what he does and doesn't see any need to let go. Also, he has trouble remembering that his son or daughter is now grown and has their own children. Each person has trouble changing; the older generation in allowing the younger to innovate and change the business, the younger in taking the reins and demonstrating what they will do. For this reason, many capable heirs either leave, or choose not to enter the business.

The members of the next generation management team find themselves working together. If there is to be an experiment with shared sibling leadership for the next generation, the prospects must practice working together. Many elders keep their counsel, and do not want to tip their hand by picking a successor. They set the stage for competition, which may be destructive. The next generation are not competing for a prize that goes to the winner; they are sharing the stewardship for the family's business, and as such they need to cooperate. The elders who ask their successors to have a hand in deciding on next generation leadership are developing a healthy collaboration in that generation. I have seen too many inter-generational teams where each sibling has an intense personal relationship with the patriarch, and they are such rivals that they avoid or do not trust their peers. If there is a gap in the team for the next generation, recruiting of new blood should begin.

The other task of this era is to begin to create a renewed vision for the business. For almost every business, the success of one generation can last only so long, before a new vision, direction and innovation must emerge. The older generation must set their heirs free to begin to look ahead in the middle of their time working together, rather than wait until they are gone. The next generation should be pursuing some new directions, perhaps diversifying, maybe thinking of new business configurations or ventures. This means that the process of creating a vision must include exploring many of the old ways, and feeling the opportunity to pursue new directions. At this stage the family commonly comes together, to listen to the voice of family members who own the business but who do not work in management. The family group may have a say, or express concerns, about the succession process.

#### Stage four: passing the baton

If you cook a roast for too long it becomes dry and tasteless. If you hold on too long, your business can lose value, or potential successors. The right time to initiate the generational shift is usually before the older generation is ready to leave. Yet, there is a time when the energy of the business will begin to flag if a new team does not take over. After ten to 20 years of leadership, a business owner should begin to consider moving on.

This can be done over several years and might include staying around in a clearly defined role as an elder. Sometimes business owners move on to industry leadership, or to managing family investments. But at some point an owner needs to define clearly who will inherit the business and how that will be done. This is delicate because it often involves not only family members but also outside

managers. A key manager may want to own a piece of the business. A larger company may offer to buy the business or outside investors might come in as partners, offering added business capital. A next generation buy-out may include a team of family and non-family owners.

The new generation does not inherit 'business as usual'. There is no type of business today that is not vulnerable to larger business roll-ups, international competition, and the need to re-think how the business is operated. That is one reason why the wisdom of many years of ownership may not be suitable for a changing environment where new threats are emerging. The new team needs to have control over the business so they can renew it, and lead it in a new direction.

These are the four phases of succession. You can easily pinpoint where your business is. You should look at the tasks of the earlier stages and see if you have successfully accomplished them. If you haven't, you may need to get together and have some serious inter-generational talks. For each stage, the family must prepare its individual successors and heirs, as well as the business as a whole. You can also look ahead and predict when you will have to move toward the next stage, and what you need to do. To achieve a graceful succession, you need to pay attention and move your business through each of these key phases. ■

---

Successful succession  
is a matter of preparation  
over a long period –  
of both the individuals involved  
and the organisation

---



---

Dennis T Jaffe is professor at Saybrook Graduate School in San Francisco, author of *Working With The Ones You Love* and a founding member of the *Aspen Family Business Group*.