LEADERSHIP TRANSITIONS

Does Your Family Business Have a Succession Plan?

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A day before his 35th birthday, Hampton Berger*, a fourth-generation member of a successful family-owned manufacturing business, stood outside his father's office, anxiously waiting to discuss his father's succession plan. Hampton had spent his life "checking the boxes" that he hoped would position him to take over the family business someday: he obtained an MBA and received several promotions in his R&D role at a global car manufacturer before joining the family business.

Much to Hampton's relief, his father announced that Hampton would inherit ownership control and become CEO of the business, just as his father and grandfather had done, effective immediately. As Hampton realized his childhood dream had been fulfilled, he thought to himself: "What could possibly go wrong?"

A lot, it turned out.

As is true in many well-intentioned family businesses, succession in Hampton's family business was built around the idea that leaders from the next generation can simply step into the large shoes of their predecessors and run the business (and the family) exactly as mom or dad would have done. But that fails to take into account that each new generation of leadership likely has different skills and interests, and that business contexts and needs inevitably shift over time. When a family business assumes that the next generation can simply take over without pausing to consider the CEO job description, governance, or the evolving business context, they may be setting themselves up to fail. We like to call this the "Sequel Fallacy."

In Hollywood, many sequels were created in the 1910s as a cost-saving measure that allowed directors to reuse sets, costumes, and props. Sequels have become big business in Hollywood because they build pre-awareness — the audience's sense of comfort and familiarity with the concept that often leads to big box office numbers today.

Family business sequels have similar traits to cinematic sequels. But in family business, it's not sets and costumes that are reused; it's ownership structures, role descriptions, and decision-making processes. On paper, defaulting to a family business sequel makes perfect sense. After all, what worked for the senior generation should work for their children, right? Enacting sequels also often offers the path of least resistance: it doesn't require the senior generation to change their own responsibilities in anticipation of succession (or after), or to change how their organizations make decisions. But that path can lead to significant challenges.

In our example above, the Berger family traditionally passed controlling ownership and the CEO position to the eldest male in each successive generation, without even considering other candidates. Other siblings of that generation became co-owners, but were not given the chance to lead the business and were expected to be passive as owners. In Hampton's father's generation, that arrangement had worked well, and his father was allowed to run the business as he saw fit.

But Hampton's leadership wasn't as smooth. After his father passed away, Hampton and his siblings became co-owners of the business, with Hampton remaining in the CEO position. Following his father's traditional playbook, Hampton made several critical decisions without consulting his siblings. Hampton's unilateral decision to replace several long-serving board directors was the proverbial last straw. Though his intentions were good — he was bringing in new board members with expertise in a growing segment of the business — Hampton's siblings were enraged by his actions, not only because they held close relationships with the replaced directors, but because they feared that their opinions as co-owners had been ignored. Hampton's relationship with his siblings devolved into infighting, significant business losses, and eventually lawsuits. This succession sequel was a flop.

How to avoid these succession challenges

Your family business might avoid the sequel fallacy by sheer luck. Superstars in the next generation can have just the right relationships with their siblings to smooth over jealousies. Or the business context might create opportunities for other family members to find their niche and coexist within the existing structure, or pursue their passions elsewhere, thus avoiding jealousy or a power struggle.

But in our experience, such success stories are the exception. Families have broken up, reputations have been lost, and businesses have failed all because the generation in control did not pause from tradition consider how to set the next generation up for success. Neither Hampton nor his father recognized that in successive generations, family businesses typically need to involve different people, with different interests, relationships, and aspirations, operating in a different business environment, with a different ownership context and culture — and even family as new spouses are added. When company and family have changed, but the approach to owning and managing them has not, it almost always has an unhappy ending.

Just as a business must reinvent itself as markets shift, so must a business family reinvent (or at least thoughtfully revisit and refresh) its ownership and leadership model. In our experience, families should take five steps in advance of succession decisions:

- **Articulate the changing dynamics.** As families grow, they inevitably become more complex. What once happened all under one roof in one generation can quickly span to multiple households. Growing up with different experiences often results in a group of individuals with a much wider set of interests, expectations, and behaviors. Coordinating these more diverse groups presents much different challenges. Seek to understand the changing players and dynamics by updating your family tree and analyzing the changes from the last transition period to today so you have better context for what your business, family, and owners need in the future. And once you understand those differences, name them explicitly and have several discussions with your family and owners to explore how those differences might affect the future.
- **Look outside the company for advice.** Engage with other business families to understand how they have managed their transition process. While their situation may be different from your own, getting insight into their approach and the reasons they chose their path can shed light on your own challenges and decisions. For example, how did they decide to transfer ownership to the next generation and why? Whose expertise did they seek in the process? How did they build alignment in both the current and future generations? Be open during these discussions, as they often introduce new

perspectives that you haven't previously considered. And seeing examples can often help build the courage you need to break tradition.

- **Be open-minded.** Respect tradition and understand why decisions were made in the past. But don't get stuck in conversations that start with "but that's how we've always done things here." Instead, talk with your fellow owners about what you would do in the absence of tradition. Can you stay true to your past and simultaneously embrace new ideas? Can you chart a better path forward if you remove some preconceptions that no longer apply? The Antinori family in Italy did just this when, after 25 generations of passing ownership and leadership of their winemaking business to sons, they split ownership equally between three daughters and divided leadership of the business according to each daughter's strengths. They were able to do so in part because they removed preconceptions about how succession worked and started with a blank slate. In the end, tradition may guide you, but don't let it be the primary reason for continuing down your succession path.
- **Don't commit to succession decisions too early.** The pride that comes with bringing the next generation into the business, and as a next generation family member honoring your family's tradition, can lead some individuals to make their decision about succession too early. Committing prematurely as either a senior or junior generation family member can put undue pressure on the successors and alienate talented — maybe even *more talented* — family members. Instead, develop a plan and process that can evolve over time — one that takes into account new information as it is available and course corrects as needed. Put simply, make succession planning a topic that owners discuss regularly and continue to ask: "Do we have the right people in the right places working well together to make the right decisions with the right information for our ownership and family?"
- **Talk openly about plans for the future.** Succession planning is a process, not an event, and it equally affects the family, the business, the owners, and the communities where each of these groups operate. Engage with each — especially your next generation — during the succession planning process. Talk with them about the past, what worked well, and what was challenging. Share your aspirations and views on what an ideal future would look like. Acknowledge the traditions, the differences, the new innovations, and the personal aspects of succession. For example, while a current

generation leader is able to unilaterally make most decisions about the business as controlling owner, perhaps the next generation would fare better with a governance process that delegates some decisions to an independent board and requires significant decisions to be approved by a majority of co-owners. The next generation may support this sequel or may have different ideas. Doing all of this will not only create a shared view of the future and drive commitment from both generations, but it will also provide the next generation with a roadmap for how to eventually transition to their own children.

In cinema, Marvel Studios provides an excellent example of how to avoid the sequel fallacy. Marvel Cinematic Universe has released more than 22 titles in just over a decade, grossing more than $18 billion during that time, without rebooting itself or replacing its cast. But each subsequent movie has evolved slightly, with individual characters becoming more or less prominent, new superhero talents being developed, and the context of the challenge they're up against shifting so that different superheroes have a chance to play important roles. As business families and owners, it's your job (and opportunity) to assume the role of director to create a future in which each of your own characters can survive and thrive for generations to come.

**All identifying details have been changed.*

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