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# How Family Business Leaders Make Room For New Generations: The Right Time And The Right Way

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*I cover leadership of family business and wealth across generations.*

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“Grandpa still runs the business and comes to the office every day. He is 96.” This oft-heard tale of the timeless business founder/leader is meant to inspire awe and respect, but it also signals a grave problem for the family, the business and even the aging leader. If he is doing what he (almost always) has done for decades, can he still be as effective as he was years ago? And what does his continuing presence mean for the rising generations that follow him? When a family leader stays on forever, the family may find itself meeting in secret, depleting its storehouse of trust or even plotting coups—all of which undermine the future of the business and the possibility of a smooth transition that would allow the business to grow and thrive.

Because their owners are also family, family business CEOs naturally have a longer tenure than public company leaders. On the positive side, this encourages stability, focus on long-term goals and a culture where employees feel respected and valued. But like headmen everywhere, these longtime leaders may begin to feel omnipotent, irreplaceable, even immortal. Over time, this can lead to staleness, fatigue and being on cruise control—just when agility and adaptation are needed. Since the family leader-owner answers to no one, the future of the business is endangered.

At their worst, family business founders may value their wisdom so highly that they stop listening to others. One of the perks of their longevity, they feel, is that they no longer need to learn and grow. They know everything they need to know, and they can't leave the business because everyone else is lacking. They become so identified with the business that it is hard for them to imagine *not* being in control. Sometimes nature takes its course, and the issue is resolved by death or disability. But with today's longer life spans, fortunate timing is less and less likely.

In contrast, the most successful family businesses have leaders who understand that their legacy and the resiliency of the business depend on their ability to shift their roles at an opportune time to mentor and support the creation of a new generation of leadership. They realize that if they stay on too long as leaders, they may miss the opportunity to install an effective new generation.

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### Preparing Leaders-in-Waiting

Fortunately, a family business contains a mediating element that can temper the leader's tendency to overstay their usefulness: young leaders-in-waiting impatient for their turn. Because the leader cares about them and wants them to emerge, this becomes the impetus to look beyond their own tenure.



A major concern of family patriarchs and matriarchs is effective preparation of their children. They want their inheritors to be motivated to develop the skills needed to take on the challenge of business stewardship. To make this happen, they must turn their gaze on themselves, and consider what they offer their offspring: How are they making the opportunity attractive for young talent? And finally, they need to find the optimal time to make the shift from being leader to letting go and preparing the business for new conditions.

### Styles of Departure

There are many directives for how to become and act as a leader, but there are few guidelines for how and when to cede leadership. Too often an organization has to remove a leader who refuses to leave quietly, with painful and even tragic consequences. Jeffrey

Sonnenfeld, a professor and Senior Associate Dean at Yale School of Management, identified and described four styles that departing business leaders choose to take, and he applied these to family business founders.

In his classic book, *The Hero's Farewell*, Sonnenfeld identifies two departure styles that undermine the continuity of the enterprise: "Monarchs," who only depart on their death, and "Generals," who plot their return after being deposed. These destructive styles of departure emerge from the leader's rivalry with younger family members, his own heroic sense of identity with the business and fears of loss of status and recognition.

Sonnenfeld goes on to describe two facilitative styles of departure: "Ambassadors," who let go of leadership but continue as advisors, and "Governors," who leave to pursue other activities. These two styles allow for a less contentious transition and greater continuity. Sonnenfeld suggests that many family businesses decline after the first generation due to the prevalence of Monarchs and Generals and the lack of positive role models for leaders to become Ambassadors or Governors. How can a family encourage its aging business leader to depart? More importantly, how can a longtime leader envision a positive new stage in life?

### Eldership: A Valuable New Life Stage

The most innovative and energetic business leaders are in the 40-60 age group. This means that the rising generation may be ready before their parents want to move on. As founders age and rising generations make their request for leadership loud and clear, business families ideally make the transition to new leadership with the founder taking on a new role, that of an elder. This new role allows the departing leader to step aside from leadership, and transition to mentorship, offering counsel, support and encouragement for a younger generation ready to take the family enterprise in new directions. This shift is hard as the elder must let go, and also trust the young leaders to make the decisions that were previously his alone.

Moving into this role is not a minor adjustment, and there are few models to show the way. The family business elder does not have a parallel in non-family firms. When public company CEOs leave, they depart, maybe after a year of oversight on the board. They rarely continue to play a role in the business, and the business can lose the benefits of their wisdom and experience, benefits which the family elder can offer.

But becoming an elder requires learning new skills and some tough adjustments. Passing on ownership and control means the business will no longer be “theirs.” This is a huge change and a deep loss. After having advisors, colleagues, customers and employees at their bidding, the longtime leader is no longer the center of the universe. This gets complicated because the founder’s relationships are personal, and even though there has been a transition, these business employees, suppliers, banks and contacts still look to the founder. Furthermore, the new leaders, now adult children or non-family executives, may struggle to feel legitimate. And there is often a transitional period in which the new leaders caution and even challenge the former leader in order to claim their authority. Resentment can arise from both sides. If there is not clear communication, trust and respect can break down. This is where many families devolve into open conflict that can be highly destructive to the business culture that has developed over the years.

### The Many Facets of Eldership

The key to a successful transition is that the elder has to find new purpose and meaning. If they take on the Ambassador role, they can work with the new leader(s) to define how to use their combined wisdom on a special project or take on a new and important task for business development. This offers the elder a meaningful way to continue to help while granting the new leader the space to exercise his or her authority.

Those elders who adopt the Governor role can start a new project or entity for themselves or for the family. For example, some elders move into an investment role with the family portfolio, sometimes buying or starting new businesses that add further value to the family.

Elders possess an enormous store of knowledge and wisdom. While no longer controlling owners, they may add huge value to the business by personally mentoring their children and successors. At their best, they teach what they know while supporting and helping each member of the rising generation to discover their own path, inside or outside the business. And while the patriarch may have been the sole business leader, their heirs often find that there is more than one role to fill. While one on them may be designated as the CEO of the legacy business, others can be on the board of directors or lead in such areas as philanthropy, family investments or non-financial family activities. All of these new leaders can benefit from the elder's guidance.

Many families find that by pushing their children toward excellence and having very high standards, they have created competition among siblings that can hurt the family business and family relationships. A major challenge for the elder is to be a model—and sometimes a mediator—helping the many family members learn how to work together and fairly share the family wealth and resources. Instead of being in control, elders can teach and support cooperation, compromise, fairness and respect.

Jay Hughes, one of the few who have written about the family leader-turned-elder, suggests they can take on several wonderful and creative new roles:

- The Bard, who tells educational and inspiring stories that define the legacy and the person who passes on the wisdom of the family's past
- The Healer, who helps family members overcome and close old wounds and hurts
- The Mediator, who helps resolve conflicts and restore trust and fairness
- The Explorer, who finds new opportunities and builds on a lifetime network of important relationships

When an elder takes on any of these roles, which support the new leaders in taking the family enterprise onto new paths, huge value is added. Indeed, nobody else could provide these special benefits to the growing family and its business. By stepping aside, the family elder must resist the temptation to compete or interfere with the young leaders. Rather, they exercise influence by the value of their advice and the trust they instill.

The founding leaders of a family business face a huge challenge after they have succeeded in building a thriving business: They must set the conditions for it to continue to adapt and succeed. The demands of that challenge mean that they need to depart at the right time and in the right way. They do this as they learn to take on a new role—that of an elder. The writings of Sonnenfeld and Hughes begin to imagine the nature and positive potential of this role and the hope, continuity and resiliency it can provide.



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