

Making the Grade

Professor Josep Tàpies, holder of IESE's Family-Owned Business Chair, explains the process of generational succession and ways that companies can avoid common pitfalls and guarantee success.

Executive Summary

Succession is a key issue in a family business, upon which its survival may depend. In this article, the author takes a look at how firms can plan for succession, pointing out two critical issues: the fundamental competitiveness of the company and the dynamics between the founder and stakeholders. Preparation for succession, he argues, should be based on four pillars: knowledge, abilities, attitudes and values.

It's the beginning of June when the editor of the magazine reminds me that I agreed to write a piece about family businesses for this issue. This year it's one of my daughter's turns to take the university entrance exams, and my home right now is pervaded with the feverish atmosphere of studying.



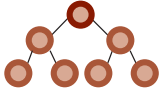

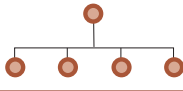
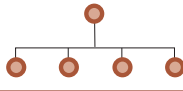
It occurs to me that family businesses also have their own special "entrance exam," and the hardest part of it is proving that they are able to carry off a successful generational succession. So, I thought I'd talk about succession as the family business entrance exam.

Successful businesses tend to have some mechanism that helps them in their long-term way of thinking. This mechanism may have a number of different names. Some call it strategic planning; others, long-term planning; some talk of vision, strategic management, or a range of other terms that, separately or carefully combined, refer to future goals and ways of achieving them.

When the business in question is owned by a family and is planning its own future, it is vital to make plans for those factors affecting the business from the family's perspective. Succession is, in this respect, a key issue, on which the business's survival could well depend. For this reason, preparing for succession requires careful planning and important decisions, since a badly managed generational change can lead to the disappearance of a family business.

Realizing the need for planning this change is the first step in a long and complex process, often imbued with a heavy emotional charge, which will affect both the business and the family. Figure 1 shows the main issues to be taken into account when this situation arises, and which will have decisive influence on the process. A succession

Figure 1
Company Stages of Development

Family's stage of development			
Ownership	Single owner	Siblings	Cousins consortium
Intra- and inter-family relations	Founder and spouse	Siblings with a set of values given by their parents	Cousins. Different families, with different value sets
Governance system	The founder leads and "commands"	Board of directors	Board of directors
Type of organization			



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"Caminos de aire". Marta de Muro. 1arte.com



process should be initiated taking into account the phase of development of the business-owning family; the degree of concentration, or dilution, of the property; the business' governance systems; and the family's systems of governance and interactions with the business that they own, keeping in mind the type of organization used by the company to reach its objectives.

We will focus here on the process of succession from the first generation to the second, although keep in mind that the following generational handover has its own complexities, which might even be greater than the first change of power. The moment of handover tends to arise when the person holding the power in the family business is between 60 or 70 years old. This is the age at which the leader tends to begin to feel a decreasing motivation to take on risks, or to vigorously implement strategies to revitalize of the business. For the handover to be successful, it has to have been planned, and coherent actions must have taken place.

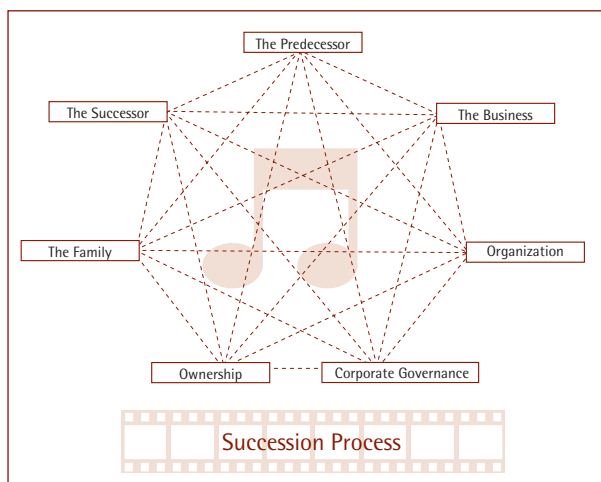
The Actors in the Process

Figure 2 presents the main actors to be considered when designing a process of generational succession. They all have their own interests and peculiarities, and can have a decisive influence on the results of the transition, which is why it is necessary to deal with each of them in a harmonious and synchronized way.

If, as IESE Professor Antonio Valero used to say, managing a business is like conducting an orchestra - using it to extract all the beauty that the composer wrote into the score - then achieving a successful generational handover is like conducting the orchestra, the choir, the set design and the choreography at the same time.

It would be impossible to describe all the keys to success in such a complex process in a couple of pages. So, instead I'll limit myself to giving a few basic tips to take into account with regard to each of the process's components and actors.

Figure 2.
Actors in the Succession Process



Preparing the Business

Although there are a few brilliant and honorable exceptions, normally the succession (especially the first one) is proposed at a time when the business is in an advanced state of maturity and, as such, is in need of strategic revitalization. It is unthinkable today that a business can simply maintain its competitive advantage for the entire professional life of its founder and that of the next generation.

If the management has been wise enough to carry out frequent strategic revitalizations, then the business will be at its peak. But people have a tendency to feel comfortable with a situation that was successful in its day, even though it may have lost its vitality due to changes in the market or increasing competition. It's pointless thinking about a successful succession if there is nothing left to hand over. This, however, doesn't have to be the case. Two fundamental issues have to be considered:

1. The fundamental elements of the company's strategic competitiveness: the future of the industry, positioning, growth opportunities, the essential capacities that made it different and successful.
2. The importance of the third parties involved in the business (the stakeholders), and to what extent those stakeholders link the business' viability with the figure of the founder. These stakeholders will include the managers and employees, clients, suppliers, creditors, banks and a range of communities linked to the life of the company and the management.

If the founder should turn out to be a key figure from the perspective of some or all of the parties involved, it will be necessary to convince them that the succession process will not affect them negatively in their dealings with the business.

Preparing the Successor

Just as success in an university entrance exam requires studying hard in all the courses leading up to it, preparing successors to take on future management responsibilities requires significant effort. This should start at a very early stage, when the potential successor should become familiar with the business, and what it represents. Useful ways to get the successor to appreciate the

business and to aspire to be part of its future, include working in the business over the summer holidays, or speaking positively about it in the home environment.

At a later stage in the candidate's life comes the question of what to study. The studies chosen should provide useful knowledge for working in the company. Post-graduate studies at a quality business school can help complete the necessary training. Preparation for succession should be based on four pillars: knowledge, abilities, attitudes and values.

Working in other companies can help to broaden the young successors outlook, and give him or her the chance to see how things are done elsewhere. This is also a good way to give them security and greater prestige in the eyes of non-family managers, as well as other members of the family, when joining the family business.

The incorporation of potential successors into the family business should be a carefully studied process, and the objectives, responsibilities, roles and means of integrating their activities with those of the other managers should be clearly defined and unambiguous. Once working in the business, it is vital to gradually increase their autonomy, giving them a chance to use their initiative and allowing them to make mistakes (clearly controlling the level of risk), as, without doubt, their predecessors did in their business adventures.

In their first years in the family business, it is a good idea to give successors the support and advice of older people with proven management experience. Two figures can be key: a coach, and a mentor or tutor. The coach can be a trusted non-family manager, who can help the successor to better understand the organization and its particular features. If the predecessor-successor relationship is good enough, the best coach is the predecessor. The mentor can be an external member of the board of directors who can help the successor to better understand the long-term evolution and strategy of the family business of which he or she is, or will be, a shareholder and manager.

Preparing the Organization

As well as developing the successors' abilities through a training program, another important task to be undertaken for an efficient succession is to prepare the organization. For this to work, it will be necessary to professionalize the responsibility and management structures used to make them coherent with the strate-

Separating ownership from management is another basic step for guaranteeing the company's continuity.

features



gies followed. In the design of the organization, room must be made for strategic business units with their own results bases, as these can be used by future successors to prove their worth through achieving measurable objectives directly attributable to their management skills.

Establishing a System of Corporate Governance

As the number of owners increases, the professionalization of the company's system of governance –separating ownership from management (which might have involved the same people for years)– is another basic step to guarantee its continuity. An active and professional board of directors can collaborate in the preparation of the successors and the organization. The board can also improve the strategic decisions taken. For this reason, taking on external directors is a good idea for the objective evaluation of the successors' evolution, and of the succession plan. **Figure 1** reflects the links between this point and those that follow.

Preparing of Ownership

It is also necessary to strengthen the role of the shareholders' meeting. This is so that the members of the family with ownership rights can exercise them by approving the administration of the management board, and by authorizing its future plans. Providing adequate information to the family members helps improve their feelings of unity and trust with the company.

Preparing of the Family

Another important task is to create a formal framework for the governance of relations between the business and the family by establishing a family protocol. It is also a good idea to create structures such as a family council, made up of trained individuals who are respected and liked by the family. The mission of the family council is to provide information on the agreements established in the protocol, and to make sure they are complied with.

Preparing the Predecessor

But when the time comes, despite all the careful preparation of the successor, the organization and the family, the succession will be a failure if the person who holds the power refuses to

leave the post, and delays succession for one or more reasons: unwillingness to lose social status, fear of losing the family wealth due to bad management by the successors, fear of having nothing to do after retirement, a feeling of being indispensable for the company, or a belief that the successor is still not completely ready. Although some of these reasons might be valid, delays in succession will damage future business opportunities. The leader must accept that "the time has come" and give way to the leadership change, always being clear that the success of the predecessor depends on the importance of transmitting a viable and well-managed business to future generations of the family.

The foregoing is a simple inventory of concepts, not a chronogram. Yet, the chronogram is of fundamental importance. Returning to the idea of the orchestra conductor, everyone knows that there are orchestras which sound better with one conductor than with another. And there are orchestras that don't sound any good how hard the conductor works with them. In this sense, the role of the conductor in the succession process is to pay attention to all the elements described, and to set the tempo of the process to bring it to a successful *finale*. ■