

# LEARNING FROM FAMILIES IN BUSINESS WHO HAVE BEEN THERE, DONE THAT... and are still talking to each other

Author Dr Justin Craig



## ▶ A SUCCESSFUL FAMILY BUSINESS – WHAT DOES IT LOOK LIKE?

**RESEARCH CONTINUES TO HIGHLIGHT QUALITIES THAT CONTRIBUTE TO FAMILY BUSINESS RESILIENCE. MANY NON-FAMILY ENTITIES ARE STARTING TO MIMIC KEY BEHAVIOURS SUCH AS FRUGALITY IN GOOD TIMES AND BAD, JUDICIOUSNESS IN CAPITAL EXPENDITURE AND CARRYING LITTLE DEBT.**

### **Successful family businesses, typically:**

- Understand the importance of professionalizing the family business through the introduction of family governance initiatives that are appropriate to the needs of the ever changing business and family
- Champion the introduction of initiatives that maintain transparency
- Distinguish between what is a family matter and what is a business matter
- Are vigilant monitors of the overall condition of the business and the well-being of the family

### **They also:**

- Understand that some things are inevitable and discuss these openly
- Appreciate the reasons why succession is challenging
- Facilitate next generation aspirants' understanding of the rights and responsibilities of leadership
- Consider a role in the business as more than a job, more than a career.

# ▶ THE IMPORTANCE OF FAMILY BUSINESS AND THE INEVITABLE CHANGE

**F**amily businesses are the key economic drivers of all economies. They are represented in all industry sectors. Importantly, contrary to popular belief, they are not all small. Some have morphed into global entities and rank among the most recognizable brand names on the planet. However, when most think of family businesses there is a tendency to be drawn to the issue that is arguably the biggest challenge that family businesses face i.e., succession.

One way to put this into perspective is to establish why succession is seemingly such a big issue. The reasons are not difficult to work out but perhaps the most fundamental cause could lie in the fact that "they don't do it very often". The tenure of a family business leader, research suggests, is five times that of a corporate sector CEO. In the corporate sector, and this is not the case in all companies and in all countries, there is a 'revolving door' leading into the executive suite. In a family business, typically, there is often no door and, certainly, no suite. And, probably best not to mention the golden handshakes that corporate CEOs receive as they exit the premises.

But, it is not sufficient to use the fact that family businesses don't change leaders often as an excuse. Much can be learned from those family businesses that have managed one or several successful transitions. My observations of these families centres around one word...

*inevitable*. I attribute this to an Australian family with whom I have had the honour to work alongside for over a decade. From a business perspective, after 50 years in business they have established that there are some things that are inevitable. The founders, like many who have been in business for similar periods, have now survived turbulent industry cycles, several global crises, interest rate hikes, overdraft squeezes, changing demographics, changing customer needs, bullying from (usually) publicly-traded suppliers and competitors, and the like. From a family perspective, they have also established that some things are inevitable. Working with family is inevitably challenging at times. They also worked out that if each family member has an average of two children it is inevitable that the family will continue to outgrow the ability of the business to involve everyone in an operational role. It is also inevitable that not all will want to work in the business. It is inevitable that relationships will change when in-laws are introduced into the family. It is inevitable that not all marriages will last. It is inevitable that dad won't live forever and it is inevitable that he will find it hard to let go of the business he and mum founded.

So, given that we know that transitioning from one generation to the next is problematic, and that we know that it is inevitable that it will happen at some point, what should be done? Or, more specifically, what have others who have managed this process done?

# ▶ UNDERSTANDING THE FAMILY BUSINESS LIFE-CYCLE

In the first major study of family business leadership in Australia, Professors Ken Moores and Mary Barrett, using the life cycle of the individual and the organizational life cycle as their dual lenses, gleaned that family businesses evolve through four phases and for each of these phases there are paradoxes, priorities and pathways. The four phases (4Ls) are Learning Business, Learning Our Family Business, Learning to Lead, and Learning to Let Go. Another way to look at this is to position the first two phases collectively making up the 'apprenticeship' stage while the second two contribute to the 'stewardship' stage. In the first two phases, individuals work 'in the business' before moving to concentrating 'on the business' in the second two phases (Figure 1).



Figure 1: Moores and Barrett's 4L framework <sup>1</sup>

Though all four phases are important to understand and difficult to negotiate, arguably, it is in the second phase, Learning Our Family Business (L2), that there is deepest learning. It is here that the next generation aspirant has to learn the 'market value of values'. It is here that the next generation aspirant has to consider how they and their generation are going to 'continue differently'...to keep the core philosophies and not the details. It is also here that there is most opportunity for the incumbent to transfer knowledge that they have collected in their time in 'the chair' (L3).

It is in L2 also that some 'inevitable' need to be put on the table. From a business perspective, given that industries and products inevitably will have a 'use-by' date, it is appropriate that some hard questions related to the business need to be asked and answered... objectively...so informed decisions can be made. As well, business structures need to be revisited and what seem as fundamental questions need to be asked and answered. For example, though a structure has served the business well for a certain period, is it now appropriate? Does it fit the needs going forward? How hard is it to change? Why did we set it up like this in the first place? Also, while in L2, it is timely to look closely at other (what have been) traditionally 'no go' business related topics. And, typically, there are many.

However, and this is what makes family businesses additionally complex, it is also in L2 that some long ignored family related issues need to be surfaced. As it was pointed out by one wise family observer, 'sunshine is the best disinfectant'. In L2, some family issues related to individual commitment, expectations, involvement, governance, ownership, should see the light of day, in some instances, for the first time in a long time.



"It's important for young people to travel and work overseas, to learn skills at someone else's expense. But encourage them back by being professional; creating an attractive job prospect in the same way you would when seeking the best manager or CEO in the world."

DR. JUSTIN CRAIG

## ► KNOWLEDGE IS THE KEY ASSET IN FAMILY BUSINESSES

While all this is happening in L2, aspiring leaders must be given profit responsibility. The reasons for this are clear and relate to choosing the best person for the leadership position and not setting that person up for failure. The responsibility for any CEO is to deliver profits. L2 is the incubator that should facilitate that experience prior to having complete responsibility. As one family business next generation member observed: "The longer I spend doing my leadership apprenticeship, the better prepared I will be to lead the business. I need profit centre responsibility. I need to genuinely understand the business and the family. Most important I need to know their expectations and surround myself with the best people to help me meet these expectations. Otherwise, when I sit in 'the chair' I will be nothing but a fire engine driver spending most of my time putting out fires. I don't want to do that."

Families who embrace the learning orientation observed by Moores and Barrett share other characteristics. They

position themselves as 'families in business' or 'business families'. Though this initially seems insignificant, it is subtly powerful. By signalling to the next generation that, while we the incumbents have concentrated on a particular business, which has served the family well, the leaders appreciate that this industry or this particular business may not be as attractive or have the same meaning to following generations. As one next generation told her father "I appreciate that this business has been very good to the family, dad, but industrial waste really does not have the same appeal for me as it does for you. Is there something else we can do together as a family?" Increasingly, families in business are encouraging their off spring to explore entrepreneurial ventures using the infrastructure and some seed funding supplied by the core business; the aim being to 'continue differently' as a business family.





"It is about transfer of knowledge along with wealth, learning about that entrepreneurial spirit and competitive advantage and how to retain it through the generations."

DR. JUSTIN CRAIG

## ▶ IT CAN BE DONE AND DONE WELL

A role in a family business is more than a job. It is even more than a career. One 167 year old European business family likens it to a vocation. Perhaps it is more than a career but not quite a vocation. Regardless, there are additional roles and responsibilities involved in working with family and these can be best understood when incumbents are prepared to consider knowledge transfer as well as wealth transfer among their already considerable job specifications.

Given the complexity and related challenges involved in leading a family and a business concurrently, the preparation for leadership should also be challenging. Families in business, which are inevitably increasingly complex, who have stated their intent is to continue across generations, are conscious of the planning that is required to prepare the next generation to lead. They understand the business needs are likely to be more complex going forward and that the onus is on them to give their successor every chance...to succeed. They encourage, if not require, them to gain a formal business or commercial qualification and to work outside the business for a

period of time before considering a role in the business. They understand that a non-family professional manager may have to be appointed to a senior leadership role in the business to act in an interim, or ongoing, capacity. Increasingly, they appreciate that the business needs to be competitive in order to attract the best family members into the business.

Business family leaders who have managed to transition successfully, typically, co-lead with their successor for a period. Each has their idiosyncratic way of managing this process but all know that they need to pass on knowledge over time. They are also cognizant that their inevitable vacating of 'the chair' will likely have consequences to many stakeholders of the business, and that this needs to be carefully handled. One family leader announced to his family that he was moving to a '440'...which meant that he would work 4 days a week 40 weeks of the year...until he moved to a '330'. This placated many of the suppliers, financiers, long term employees and customers as they felt informed, secure, and very much a part of the transition process.

## ▶ GET INVOLVED – LONG TERM PLANNING IS THE KEY

The key learning from family businesses who transition from one generation to the next is that they plan well in advance and stick to the plan as much as is reasonable...given that it is inevitable that circumstances will change. Though, given the heterogeneity of the family (in) business sector, an exhaustive list of key questions to consider is not possible, but, to start the conversation perhaps it may be prudent to ask some fundamental What? Who? When? Why? How? type questions, such as the following:

### Incumbents:

1. What are my options?
2. When should I consider sharing my intentions?
3. How have others managed this process?
4. Who should I discuss this with?
5. Why would I avoid this topic?
6. How much do we need to retire?
7. Who.....?
8. When.....?
9. Why.....?
10. How.....?

### Aspirants:

1. What are my options?
2. When should I seriously consider a role in the family business?
3. What can I contribute without being in an operational role?
4. How prepared am I for a leadership role in the business given my current situation?
5. Who should I benchmark myself and our family against?
6. What am I doing to better prepare myself for a role in the business?
7. Who.....?
8. When.....?
9. Why.....?
10. How.....?



## DR JUSTIN CRAIG

Associate Professor of Entrepreneurship  
D'Amore McKim School of Business  
Northeastern University  
Boston, USA

Dr Justin Craig is internationally acclaimed in the field of family business research. He holds editorial positions on leading international publications the Family Business Review and the Journal of Family Business Strategy in which his research has been published along with a wide range of other publications. Prior to his academic career, Dr Craig worked with and for business families for more than a decade, including multiple entrepreneurial ventures with his brother. As well as having instructed next generation members from most countries in his family business classes, Justin continues to present to family businesses globally, including in his home country Australia, and New Zealand.

## CONTACT US

Please contact your local family business specialist on  
0800 379 528 for any assistance

Bay of Islands  
Auckland  
Waikato  
Tauranga  
Rotorua  
Manawatu  
Gisborne  
Hawke's Bay  
Taranaki  
Wellington  
Christchurch  
Invercargill

[www.bdo.co.nz](http://www.bdo.co.nz)

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact your local BDO member firm to discuss these matters in the context of your particular circumstances. BDO New Zealand Ltd, its partners, employees and agents do not accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

BDO New Zealand Ltd, a New Zealand limited liability company, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO New Zealand is a national association of independent member firms which operate as separate legal entities. For more info visit [www.bdo.co.nz](http://www.bdo.co.nz)

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

© 2013 BDO (New Zealand) Ltd. All rights reserved.