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Successful Successions are Never Smooth

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Succession is one of the biggest challenges a family business can face. Many business owners and families assume that the process will be difficult, risky and conflict-prone, as it is indeed. As a matter of fact, succession is a decisive moment in the life of any organization. Hence, many family firms fail as a result of unsuccessful successions. However, just as many succeed without great difficulty. What do these successful transitions in leadership have in common?

It turns out they are never smooth, and they are never without conflict. But the people involved expect the conflict, view it as natural and do not let it get in the way of things. They also make sure current and future leaders as well as the business itself are adaptable and receptive to change as much as possible so that they can weather the temporary turbulence.

In succession, instead of fighting against tensions and conflicts, it is far more important to formulate a unifying, positive goal for the family; to strengthen relationships among family members and family branches; to improve communication frequency and quality; and to strengthen conflict resilience. Let us take a closer look at what each of these tenets entails.

Prepare Current and Future Leaders

Timing is critical when managing change in top management. It seems like successors between the ages of 35 and 45 years possess an adequate balance of energy and experience to step into the top job. Intuitively, this seems reasonable – younger people have more energy, and energy allows them to learn and recover from mistakes faster. What's more, at this age the successors are in a life stage where they are still willing to seek the advice of the older generation, a willingness that decreases with age. Hence, a younger successor may have a smoother transition because the older generation resists less when they feel involved, needed and heard.

It is also important to remain mindful about the current CEO's performance. Several studies point out that**CEO performance decreases** after having been on the job for about a decade, unless they constantly question existing structures and strategy and invite criticism from the outside. Generally, during a CEO's early years performance generally increases exponentially, then it flattens before it begins to decrease (Miller, 1991; Miller & Shamsie, 2001). This happens because CEOs tend to invest less and less effort the longer they stay in place. They become "stale in the saddle" and initiate change less frequently, as a certain amount of lethargy and rigidity creep into the top management team. This might be especially critical for family firms, whose CEO tenures have been shown to exceed those of non-family businesses (e.g., McConaughy, 2004).

Also, given that CEO evaluation systems are a rather recent development, it might be that older (owner-)CEOs may have never been formally evaluated regarding their performance and suitability for office. Thus, establishing an evaluation process BEFORE succession will keep incumbents and other members of senior management "on their toes" and make the company more fit for succession. Putting in a place a board – consisting of qualified family members and knowledgeable, assertive outsiders with a good understanding of family dynamics – is generally helpful in providing oversight and accountability for leadership.

Prepare the Business

If it can be avoided, a succession should not take place when a company faces financial or legal troubles, risks the loss of a major customer, or experiences any other kind of turmoil. To use an analogy from medicine: no doctor will give a patient a heart transplant if the patient is morbidly obese, because regardless of how healthy the heart is, the body will likely not be able to cope with the stress of the surgery. Hence, it goes without saying that family businesses ready to hand over the reins need meaningful, future-oriented strategies, a solid financial base, and optimal processes and structures for achieving their goals.

A family business must also make important financial investments at the right time, before any transition in leadership takes place. Older, more established CEOs are less likely to invest in the business — mainly because they want to keep the return on assets high to please family members and other shareholders who have been enjoying a stable dividend and a healthy income. When the successor takes over and encounters a situation of chronic underinvestment, and makes those long-needed investments, both the company's expenses and asset base increase. As a result, the return on assets (net income divided by assets) might decline for several years in a row, much to the chagrin of family members and employees who have been enjoying generous dividends over extended periods of time and may not understand why this investment is now necessary. This can lead to conflict and leadership rejection. To avoid this scenario, the family should keep an eye on the investment policy and ensure that necessary investments happen *before* the management transfer takes place. As for the shareholders, it might make sense to take a look at the depreciation trend; if it is flat or decreasing, it is likely that too few investments are being made.

Prepare Other Family Members and Employees

CEOs who have served a long time enjoy close relationships with the employees and leadership team and are often less likely to provide honest feedback or even punish misconduct. This is when relationships get in the way of truth. Groupthink creeps in, and even worse, rules are conveniently bypassed in deference to relationships. This is a considerable problem, particularly when it comes to quality assurance.

A shakeup at the top might cause some longtime employees and family members to leave, and while that is uncomfortable it is not always a bad thing. Changes are good, because employees – and the management team in particular – must share the vision of the new leader. This is particularly the case with CFOs, who often feel so strongly connected with the departing leaders that they may decide to continue to report to them even after they have left the organization. This damages the trust not only between the CFO and new CEO, but also between the new CEO and the predecessor. In addition, most CFOs have been reporting the same numbers for years or decades, based on their predecessor's specifications, so it is usually quite difficult to introduce a new way of thinking or a change in orientation. Ideally, the successor should consider appointing his or her own CFO. Lastly, it makes sense to make changes in the top management team *before* the successor takes over, so the new management team is already in place at the time of the succession. This final step may entail many changes and conflicts. However, the more turbulence one can anticipate, the better.

Other Things to Consider

Get Help. Families usually do not become more successful or robust on their own, without the use of time or money. I recommend organizing family events or creating a committee dedicated to strengthening family cohesion (Pieper & Astrachan, 2008). And if one feels that their family has very little cohesion, I suggest seeking professional support to help this process along. Families with no common vision, or families that weight individual goals equal to (or more important) than shared goals, will likely find it rather difficult to find a common denominator in the succession process.

Communicate often. Family members who do not talk to one another other regularly have no independent relationship, and therefore cannot build up deep trust, which greatly simplifies the decision-making process. Remember that conflict is a natural accompaniment of change. Therefore, do not demonize conflicts - they are what they are. It helps to understand existing family dynamics to strengthen the group's ability to deal with conflict (Astrachan, 2018a, 2018b).

Develop younger relatives. If parents want their children to be competent and responsible owners, then it is their job to teach them, and give them the appropriate tools. Parents must also give children the opportunity to make mistakes and introduce (and follow through with!) age-appropriate consequences (Astrachan & Pieper, 2011).

Have a Fair Process. Decisions are more effective and individuals will be more compliant if those involved feel represented, involved and informed. Interestingly, this is also the case when individuals are not necessarily agreeing with the final outcome. Families need to make sure that they live up to the stakeholders' procedural expectations - not only during recruitment but also during the periodic evaluation of the successor

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(Eddleston & Kellermann, 2007; van der Heyden, Blondel, & Carlock., 2005).

Embrace fear. It's tempting to attempt to control emotional issues with technical, structural solutions. Instead, we need to honestly confront the fears and uncertainties we have about the succession process, and understand which of our decisions are driven by fear and caution rather than confidence and courage. Possible fears include doubts about one's own ability or doubts about the ability of the next generation; fear of what the next phase of life will bring; or fear of not meeting the expectations of the family. Once we know what we are afraid of, we will be better able to objectively evaluate our decisions and make better decisions that are not based on uncertainty, but on confidence. To say it with an entrepreneur's own words: *"You need to become comfortable with being uncomfortable."* (Misner, 2018).

Conflict has always existed, and it will always exist; it is an essential byproduct of any group interaction, and every change process. Families need to make it the task of the shareholder group to define a unifying common goal, to make sure that family members feel involved in decision processes, and above all, to improve their communication dynamics and strengthen the group's ability to deal with conflicts. Developing these skills is the greatest gift families can give to future generations.

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