Playing the Succession Game to Ensure Family Business Continuity

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KEYWORDS: Family Business, Journal of Family Business Strategy, Help with a family business, Running a family business tips, Successful family businesses, family business succession planning, family business conflict.

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Family businesses are especially conflict-prone, since sibling rivalry and other emotional undercurrents sometimes cloud decision-making, especially in family business succession planning. One of the thorniest decisions is who will fill a founder's shoes – especially if more than one family member wants the job. The costs of family business conflict can be high: consider the case of Reliance Industries, whose founder died without appointing a successor. His two sons fought so hard to succeed him that their mother had to split the company in two in order to save it.

It's difficult for many families to disentangle the business from the personal, to see their way through the fog of emotions, and to make rational decisions about succession. In our research paper published in 2016, we showed how game theory can be used to weigh the tangible and intangible costs and benefits of different succession scenarios, and to help both founders and their potential successors see how each scenario will pay off for them personally. Our most important insight: family business continuity may depend on people's ability to put those interests aside and collaborate for the benefit of the business.

How Decisions and Feelings Play Out

Our research looked at three hypothetical players in the succession game: the founder and two possible successors. We assigned mathematical values to eight different interdependent factors that affect how the succession process unfolds: each child's leadership skills; their family orientation; the degree that the founder values leadership skills and, similarly, family orientation; how badly each child wants the top spot; the value that each child places on his or her best career option outside of the family firm; the emotional cost resulting from sibling rivalry; and what we call the candidates' "cost of running" for the top position, in effort and potential strife.

We developed a game tree that ends in seven different outcomes for three different players: the founder and two potential successors, whom we call the eldest child and the younger child. Reading the tree, the players could see how their personal feelings and their decisions at each critical juncture might play out for them at the end – in potential personal wealth and in emotional well-being. Looking backward from each of the seven potential outcomes, the players can see how each decision – beginning with the eldest child's decision to run or not to run for the top job -- determines the outcome. For example, the founder may be able to analyze which choice will get him or her the most capable successor without steep emotional costs; and each candidate can determine whether running or not running for the top post will best pay off professionally or emotionally. Candidates can also determine whether the emotional cost of vying for the top spot may be too high, making a move to an outside company necessary if the founder favors the other candidate.

Key Takeaways

Here are some things we've observed that are worth noting:

- If one of the two candidates has better leadership skills and strong family orientation, that person will be the natural successor.

- If both candidates want the job, the founder's strongest priority – business or family -- will lead to him or her favoring the candidate who have a similar priority.
- If the founder clearly favors one of the two potential successors and that person wants the job more than the other candidate, the decision is easy because everybody will get what they want. This applies even if the less-motivated candidate would be the better qualified.
- We saw that a child with a stronger family orientation may be less apt to incur conflict with a rival for the top post, even if he or she may be more qualified as a leader.
- Even if one candidate doesn't want to be the leader, the other candidate may decide that a career outside the family business will pay off more. This puts the family firm continuity in jeopardy.
- The higher the emotional cost that a child sustains for competing against a sibling, the lower the propensity of that child being appointed successor, even if he or she is indeed the founder's preferred candidate.
- The collaborative family outcome analysis highlights the importance of founders, practitioners and consultants working to promote greater cooperation and more cohesiveness between family members, as this will help ensure family firm intergenerational succession.

While it's useful to have a rational way to analyze the best outcome, you may need a consultant to help sort things out, especially if the future of the firm may be at risk.

Learn More

Jayantilal, Shital, Jorge, Silvia and BAnegil Palacio, Tomas: **Effects of sibling competition on family firm succession: A game theory approach,** (https://www.sciencedirect.com/science/article/abs/pii/S1877858515300176) Journal of Family Business Strategy, December 2016.

DOI: