

Let the Next Generation of Family Firm Leaders Chart Their Own Path

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KEYWORDS: Family Business, Startups, Succession.

While start-ups are typically known for their innovation, family businesses are seen as mired in traditions and stuck in the past. But recent research shows that the next generation of leadership can both honor the family firm's past and innovate to make it stronger in the future – if older relatives give them the freedom to chart their own path instead of demanding they join the firm immediately.

Entrepreneurial and digital experiences equip next-generation sons and daughters to help their family businesses identify new revenue streams and grow to new heights. Experience leading their own businesses and projects gives them that, along with the self-confidence and business acumen necessary to eventually take a leadership role in the family business. The upshot: when younger relatives want to start their own venture, don't see it as a threat to the family business, but rather an opportunity that will help them appreciate the family firm and seek ways to contribute to its growth.

When Lena Schaumann completed her bachelor's degree, she could imagine many things - except joining her father's furniture company. "That was clear to my father, too," she said. "Nevertheless, he always said he'd like me to take a look at the company for at least half a year." Schaumann studied business administration at the renowned talent factory WHU - Otto Beisheim School of Management. The business school near Koblenz is not only known for its strong focus on family businesses but also on digital business models. "So, of course, the idea from her father was: Lena, can you give us a hand with e-commerce?," she recalled.

That's exactly how it turned out – and, in the end, probably far better than her father, Hermann Schaumann, could have dreamed. Lena not only managed to set up a successful online store for her

parents' furniture company within six months, but she also started her own complementary business. In 2013, at the age of just 26, she founded Lumizil in Berlin, an online store for lamps. After leading this business for six years, she returned to the family business in 2019 -- richer in experience and self-confidence and ready to be her father's successor. She is taking Lumizil's team, infrastructure and know-how from Berlin to Kassel, home of the family business, "Möbel Schaumann," since 1912. "If I hadn't founded the company myself, I would never have had the courage to join [the family firm] as Managing Director," she says in retrospect.

A Crash Course with a Steep Learning Curve

Such succession stories are a good sign. In the past, future family business leaders acquired expertise from consulting or working for the competition. But working for someone else has its limits if you want to initiate big changes, such as those that digital transformation makes necessary. However, starting their own independent company can help the next generation develop competencies that will serve the family firm well, such as customer care, financing, strategy and employee management. As founders and leaders of their own firms, they go through all these activities in a very short time. It's a crash course with a steep learning curve.

In addition, family businesses often gain an innovation boost when next generation members apply the knowledge they learned from building their own digital business models. Transferring processes over to a digital format can be a risk for family firms, at least initially. When younger relatives work out the digital kinks in their own companies, it can help the family firm, which can integrate the startup if it's successful and remain untarnished if it fails. For example, if Lumizil had not been a success, it would not have hurt the Möbel

Schaumann brand.

In addition, it is precisely the independence from a parent's company that increases the chances of success for a next generation start-up. "Möbel Schaumann's infrastructure didn't fit the business model of an online store," says Lena Schaumann. "That's why we started from scratch with Lumizil and didn't try to take the existing inventory management system and bend it to fit."

However, will such entrepreneurial next-generation members eventually be able and willing to lead their family's business into the future? Many are hoping that stories like Lena's will become common. This is particularly important given the pressures small to medium-sized enterprises are facing in filling executive positions. For example, according to current estimates by the Institute for SME Research in Germany, 1.9 million executive positions will need to be filled in the next five years. With the shortage of skilled workers and pressures of digitization, many are hoping that stories like Lena Schaumann's can be replicated. Thus, can experiences with entrepreneurship offer next generation members an advantage and eventually benefit their family's business?

Successors as Business Founders: An Advantage

Dr. Larissa Leitner's research answers this question. For her doctoral thesis, which she completed at WHU in Germany, Dr. Leitner studied what she calls "founding successors," or next generation family members who started their own business. Dr. Leitner studied 300 cases of founding successors, albeit with different implications for the family business in question.

"Of course, there are some cases in which the founding successors don't want to return to the family business but prefer to do their own thing," she said. "However, what was very clear was that they were all motivated to prove themselves entrepreneurially." She added that it is also striking that for those founding successors operating in the same industry as their family's business, a clear advantage over the competition was identified. "Regardless of the founding successors' long-term career plans, there are great synergies with their own family business right from the start that contribute to their business's success."

Such was the case with Thomas Grimme, who is the

successor of Haushaltswaren Bley, a retail store founded in 1827 in Cloppenburg, Germany. Grimme studied politics and history in Berlin and was about to embark on a career in journalism -- until his father asked him to help set up an online store. "It was immediately clear to me that my father could not do it alone. My support was vital for the company's survival," he recalled.

Grimme has always been digitally savvy, with friends and acquaintances from the startup scene. In 2013 he founded Bleywaren, an online housewares store, as an offshoot of the family business. Reflecting on Bleywaren's success, Grimme explained: "I could not have done it without the parent company. I didn't have to build my own warehouse. And to this day, I order everything that goes through the online store from Haushaltswaren Bley's range."

Freedom to Choose One's Own Career Path

Thomas Grimme believes it is his responsibility to make the family business fit for the future: not only through his e-commerce expertise, but also through growth achieved by combining offline and online business. "I think it's important to dovetail the two worlds more closely and to try out new approaches in the process," he said. "The challenge with online retailing is, after all, the merciless price comparison with the competition. But, I believe we can break out of this to some extent by trying to score points with the customer through our high quality and commitment."

Many family business leaders worry that if the next generation starts their own business, they will certainly never return to the family business. This can cause some tension and power struggles. However, the fact that Thomas Grimme decided to join the family business after leading his own company can be partly attributed to his father's attitude. Grimme's father gave his children all the required freedom to determine their own career paths, Thomas reports. It's an experience he shares with Lena Schaumann, who says: "There's absolutely no point in pushing the next generation in any direction. Be it pushing them into a career like consulting, directing them to start their own business, or forcing them to join the family business." The decisive factor for a successful handover is often the environment of the successor generation and the stories they hear from others.

Drawing on her own experience with succession, and her observations of the challenges of other family businesses, Lena Schaumann now leads a popular podcast on the topic of succession. “In my opinion, there is nothing more exciting than leading a healthy family business into the future,” she said. “And not by simply carrying on as before, but by adapting the company to the changing conditions. Basically, just like my grandfather turned the Schaumann company around when he turned a carpentry shop into a trading company.”

Being Able to Pivot to Make it Your Own

The story of successor Marius Hamer offers a perfect example of how a family business’s strong foundation can help the next generation. In 2014, the 40-year-old entrepreneur took over Foto Hamer, a 110-year-old specialty store selling high-quality photo equipment. After studying business administration, Marius Hamer worked briefly in consulting before deciding to join the family business, saying, “I simply had the ambition to rethink our business model.”

In 2017, he founded Gearflix, an online rental service, out of the family business. “The idea was to bring the sharing economy to photography,” he says. It worked well; very soon, the startup’s revenue exceeded that of the brick-and-mortar store. Unfortunately, COVID-19 put a damper on the business model: “Cameras are mainly used for events, and of course, those were hardly happening anymore,” he said. But Hamer quickly pivoted, selling off much of the inventory and using the startup’s existing infrastructure to focus his energy on online sales, and sales doubled as a result.

With all his entrepreneurial creativity, Hamer has thus achieved what he considers the most important condition for handing off the family firm to the next generation: “You have to rethink something, really change something. Only then is it really your company. And only then do you have the chance to carry the company into the future.”

Is the new generation of family entrepreneurs ready for this? Absolutely, thinks Marius Hamer. And Lena Schaumann is also sure: “I don’t think we need to worry about that. There will be many great new entrepreneurs in the near future.”

As a consequence, the old saying, “the first generation

makes it; the second generation spends it; and the third generation blows it,” might not hold true anymore. To the contrary, many later generation members are looking to take their family business into the future by creating new pathways for success and making their mark on the business. Rather than pushing a sense of duty, fostering their passion and giving them the freedom to develop their own competencies is the key to motivating the next generation of family business leaders. This will position them well to take over as successors and lead the family business in new directions.

The original (German) version of this article was published by diskurs, issue 37 by Weberbank Aktiengesellschaft in May 2022.