

*“What you do has a far greater impact than what you say”, Stephen Covey*

### **Insight 7 – Intergenerational Change**

Early in the fall, just as the group was about to start off on its run, a sudden, unexpected, severe thunderstorm moved in from the lake and settled over the downtown core. The weather forecasters had only suggested the possibility of light rain, which would not have stopped the group, but everyone agreed that it was unwise to run in the torrential downpour and lightning that accompanied the thunderstorm.

Jim elected to use his “found hour” to get back to his business early. However, since they already had the time set aside, Dave, Julie, Alan and Winville decided to treat themselves to a healthy lunch.

The opportunity to talk among themselves had been rare lately, so the conversation quickly evolved to what everyone had been up to for the past few weeks. Dave talked about how well his clients were reacting to the recent stock market volatility, while Winville described the latest real estate project in which he was involved. Alan offered that his law office had added a significant new client recently and there was a lot of work to bring the client’s corporate governance up to the standard Alan felt was worthy of the complexity of the client’s business. Julie mentioned that she had made another west coast swing to cement the relationship with the potential new customers she had met on her previous trip. She added that she had also taken the opportunity to spend some time with her CEO brother who wanted her advice on some issues affecting the family business.

That prompted Dave to say, “I know you told us once before that you had the opportunity to be directly involved in your family’s business, but you declined. It sounds like you are more engaged than you described.”

“No, not really,” she responded. “Sometimes things come up in the business where my brother just wants another opinion. He is very capable of making decisions, but I am happy that he is willing to ask his little sister for her input occasionally.”

Dave continued. “I don’t ask this with anything other than curiosity, but did being the ‘little sister’ have anything to do with you not wanting to be a bigger part of the family business? You are obviously very capable too.”

“No, not at all!” Julie reacted and then joked, “You may find this hard to believe, given my unassuming nature today, but I was a bit of a rebel within the family when I was younger!”

“Really,” said Alan, “does that surprise you guys?”

Dave and Winville just laughed in obvious agreement.

“No, it’s the truth!” Julie protested with feigned indignity. Then she continued, “And as I ‘matured’, it became obvious to me that my brother was the perfect person to lead the business into its third generation. He and my father had great personal respect for each other, and they started working on the succession plan at least ten years in advance of my father’s planned retirement.”

“That showed unusual foresight,” Winville observed.

“Actually,” Alan jumped in, “I have seen a lot of succession plans and the ones that seem to be most successful are those that are built on five to ten-year timeframes at a minimum. Given that much time, the participants can be both very strategic in terms of what they want the transition to look like and very tactical in terms of how they will implement the strategy.”

Julie added, “My brother also had the advantage that my father went through an intergenerational change himself with my grandfather. He knew from his personal experience that there can often be a difference in perspective and ambitions between an exiting founder and an incoming successor.”

“I’m sure the age difference accounts for much of that,” Winville declared.

“Intuitively, that makes sense, but I think it is more than that,” Dave suggested. “In my studies to obtain my Family Enterprise Advisor certification, I was pleased to find that a significant amount of time was devoted to understanding the different attitudes and expectations of each generation.”

“And how would you characterize those differences?” Alan asked.

“Sometimes it is no more complicated than the words each uses to describe their perspective. The older generation will frequently talk in terms of ‘continuity’, as in planning the continuity of the business; while the younger generation talks about ‘succession’, as in managing the transition of the business to their generation..

“As the senior generation has often invested many years of their lives to build value in the company, influence its culture and its direction, they want to see the things that they are attached to continue, whereas the next generation is anxious to take charge and make their own changes, for example, like modernizing the company and trying out their ideas. Of course, both generations need each other to succeed and need to be careful not to disrespect each other.”

“So, how do you align the different perspectives?” Alan continued his enquiry.

“In most situations, the conversation about the transition should probably focus first on continuity — what needs to stay the same,” Dave responded. “Then, once the senior generation feels confident that the next generation will preserve the core elements of the family business, they will be more open to proposed changes.”

“I can attest to that,” Julie volunteered. “My father demonstrated his commitment to preserving the company’s core values by re-stating them more formally when he upgraded the handwritten pages my grandfather had created. He also understood the importance of guarding the good reputation my grandfather had built over the years. And very importantly, because my grandfather envisioned a multi-generation family business, my father knew he had to commit to protecting the company’s stakeholder relationships.”

“And did your father want to make any big changes?” Winville jumped back into the conversation.

“Yes,” Julie answered. “Aside from the obvious transition of ownership and leadership to my father, he also knew the transition provided an opportunity to re-evaluate the senior people in the firm.

“I remember him telling me that, unfortunately, some of the top-line managers had become complacent over the years and weren’t doing their jobs as effectively as my father thought they should. They were long-time employees, so he and my grandfather worked together to encourage early retirement, job changes or reduction in responsibilities.

“My father wanted to avoid the risk of continuing complacency, so he had a plan to create a culture of merit by implementing a system that promoted excellence and recognized the best people and rewarded them with the best positions. That system is still in place today. It is based on defining goals, milestone achievements, frequent evaluations, and self-assessments among the management team. In fact, I model my business after that system today.

“He also reminded my grandfather that the family business started off in a simple fashion, with a very specialized product line that had expanded significantly over time. Some of the products were meant for what were now diminishing markets or were becoming too exposed to pricing competition from foreign suppliers. So, he proposed phasing out or eliminating certain products to focus on new ones that he felt had a better future and more profit potential.

“How did your grandfather react to that suggestion?” Alan asked.

“He was okay with it in principle, but with the provision that any new endeavors not involve the business taking on more risk than it could safely afford.

“And, of course, my father had a number of ideas about the longer-term strategy for the business and how it should be managed. The good news is that they worked through all these decisions together in the beginning, so they could both develop more confidence in the transition. It didn’t take that long for my father to understand and respect my grandfather’s way of thinking and what was important to him. As their confidence grew, my grandfather ensured that my father assumed more and more of the leadership responsibilities.”

“And when your brother took over, did he and your father go through essentially the same process?” Winville asked.

“Yes, but with even more intensity. My father was determined that my brother earned the right to lead the company. He showed no favoritism or concession for under-performance. Through the extended transition period, he made my brother demonstrate his competence in all the key functional areas of the company and encouraged him to develop a ‘following’ among the employees. He expected my brother to outperform non-family employees to demonstrate his ability to step into my father’s shoes without anyone thinking he got the job just because he was ‘Daddy’s boy’.

Fortunately, my brother loved the discipline and rigor of the process and my father rewarded him with gradually increasing authority and autonomy to define his own job. My brother thrived on the increasing latitude and responsibility which made him even more enthusiastic for the future which was, of course, beneficial for an effective succession.

“As for suggestions for change, by then things had substantially moved forward in the world of technology, so my brother wanted to upgrade some production capabilities, management reporting and the like. He also thought the company’s marketing could be improved , so he went to work on that as well.

“Being as I said, more mature by then, I really began to notice how the inter-active process helped my brother develop a personal sense of responsibility and accountability to something larger than himself.

Not that he was irresponsible in any way, but the gravitas of being the guardian of a multi-generation legacy wasn't lost on him at all."

"That's an important observation," Dave noted. "Your grandfather didn't build a legacy and give it to your father. Nor did your father give his legacy to your brother. In each transition, they simply passed along the responsibility for protecting whatever will be the ultimate legacy of the family business.

"It's an awesome responsibility and not always an easy one. It involves strengthening the reputation and key relationships of the family, holding onto skills, values, understandings and resources that promote the interests of the family and letting go and changing other things that no longer serve the family well."

"We were very lucky," Julie admitted. "Both my grandfather and my father recognized that the next generation needed to be treated as the emerging experts if they were to consider stepping up in the business, rather than taking their talents elsewhere."

"I am very interested in knowing, Julie," Alan asked, "if there was, in your view, any common characteristic that your grandfather, father and brother shared that facilitated their successful transitions. Obviously, they were all smart and held communal values and beliefs, but anything that you could identify — a genetic trait, perhaps?"

Julie thought for moment before saying, "Well, I don't think it was anything biological. They were also all very different physically, in a sense of humor way, in their mannerisms, and the way they described things. I would have to say they were all thoughtful and somewhat detail-oriented, but one strong characteristic I think they did share was a robust entrepreneurial spirit."

"I would think that was essential to lead a family business," Winville said. "Do you think that entrepreneurial spirit has just been passed down in your family. After all, you are a very successful entrepreneur too!"

"It would be great to believe it was as simple as that," Julie replied with a chuckle. "Then we could just identify all the successful entrepreneurial families in the world and let them run all the business! But no, I would be surprised if there is any scientific basis that suggests entrepreneurship runs in a family. My sister is a perfect example. As you might recall, she is a violinist with the Seattle Symphony. She has absolutely no business mind or interest. She is very good at her profession and has worked hard to get where she is, but the thought of leading an entrepreneurial venture would terrify her!"

Julie continued, “I think both my grandfather and father were good at nurturing entrepreneurship through their actions and behaviours. I also believe they both believed that the key to successful entrepreneurship was the willingness to innovate.”

“Let me give you another example, “ Dave offered. “I was recently involved in a succession coaching engagement for a well-established husband and wife-owned business where they naturally assumed their son would come into the business since they had been contemplating it for years. They asked me to have dinner with them and their son to ‘talk up’ all the good things about taking over the family business and how lucky he was to have the opportunity to carry on in his parents’ footsteps.

“Our conversation started down that path, but it was soon obvious to me that the son’s heart wasn’t really into our discussions. So, I stopped right in the middle of our meal and asked him point blank if he really wanted to come into the family business and eventually own it. After a couple of anxious looks at his parents, he finally said, ‘No, I want to be an airline pilot.’

“His parents were, obviously, shocked, and after a few protests from them, our dinner table fell quiet for what seemed like an eternity. Finally, the son said, ‘I’m sorry, Mom and Dad. I know that’s what you want for me, but it’s not what I want for myself.’

“‘Why didn’t you say something before?’ his mother asked. ‘We’ve talked about this so many times.’ He replied, ‘Because I didn’t want to disappoint you.’”

Dave let that sink in for a moment before continuing. “Too many family businesses have not withstood the challenge of succession because the older generation just assumed that those next in line wanted the job or had the same talents, ambition and ‘fire-in-the-belly’ that allowed them to get the business to its current stage.

“There is a big difference between founding and building a family business and leading one that is already thriving. Too many businesses have failed in the transition from one generation to the next because a parent assumed the child wanted to be ‘just like dad or mom’ when what the child felt was an obligation to the family that they didn’t want to bear. When businesses pass from parents to children under those conditions, they almost inevitably start to deteriorate right away and eventually fail completely.”

“Entrepreneurship and taking over the family business should not be an obligation. In fact, I would argue that the next generation should be encouraged to pursue their own paths. The ideal goal of the

senior generation should be to provide an environment that encourages the next generation to pursue knowledge and engage in innovation whether that is within the family business or elsewhere. They can always leave a window open for next generation to come back to the family business if they wanted to at a later time.

The lunch table fell silent while all of them digested the discussion until Alan finally spoke. "I have learned a lot today. Thank you, Julie and Dave, for sharing your experiences and knowledge. As much as I wished we had been able to run, I think our sensibility in not doing so has been well-rewarded!"

"Agreed!!" Winville exclaimed.

"Absolutely!" Dave echoed the feeling.