



SUFABU

SUCCESSION IN FAMILY BUSINESSES

FAMILY BUSINESS SUCCESSION STORIES

STICKY BATON SYNDROME

INTRODUCTION TO THE THEME



Many family business owners regard themselves as being one in a long line of owners where the baton is passed forward between generations. Similar to a relay race when the baton is passed on from one runner to the next. Unlike relay races there is no pre-decided finish line when it comes to a family business. The owner who is holding the 'baton' must do their best to take care and improve the company before passing the baton forward to the next generation.

In certain cases of succession, the generation in control finds it challenging to relinquish ownership and leadership to the next generation. *"When is the perfect time to pass on the baton? Work is so fun, why retire? How to find a suitable time for both the generation in power and the next generation?"* This is challenging especially in family businesses with weak governance. Lack of change can lead the next generation to become unincentivized and lose passion for the family business. The generation in control may also be so focused on not letting go of power that it eventually hurts the business or family relationships.

It can be difficult for the next generation to engage in dialogue with the generation in control since they do not want to undermine their often directly related older generations. The owners in control may also limit the next generation to gain experience in various management positions as well as gaining necessary experience and skills both in and outside of the company. When a succession does eventually take place, the next generation might not have the correct skill set to be a suitable successor.

According to a survey from PWC [2] 40% of the business leaders in the USA is hesitant to relinquish control to the next generation. In this project we have one story to illustrate the challenge of Sticky baton syndrome.

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CATEGORIZATION



Nationality:	Norway	Succession option:	Family succession
Company size headcount:	>50	Company size turnover:	<€10m
Generation:	2nd to 3rd generation	Industry:	Real Estate & transportation
Interviewed:	3rd generation	Anonymous:	Yes

SUCCESSION STORY



This case is based on an interview with the son of a company owner that has found it difficult to step back and let the next generation take over the company's leadership. The company was founded in 1930s and was passed onto the second generation as the result of a sudden death. This meant that the second-generation owner had no experience with how to plan a succession, and he has not been conscious or knowledgeable on how to pass it on and let go. He had taken over the company at the age of 24 and sat in the leadership position for over fifty years. As a result, his identity is deeply connected to that of the family business. The second generation was also entrepreneurial; developing the company into a group of companies within real estate, fisheries and freight forwarding.

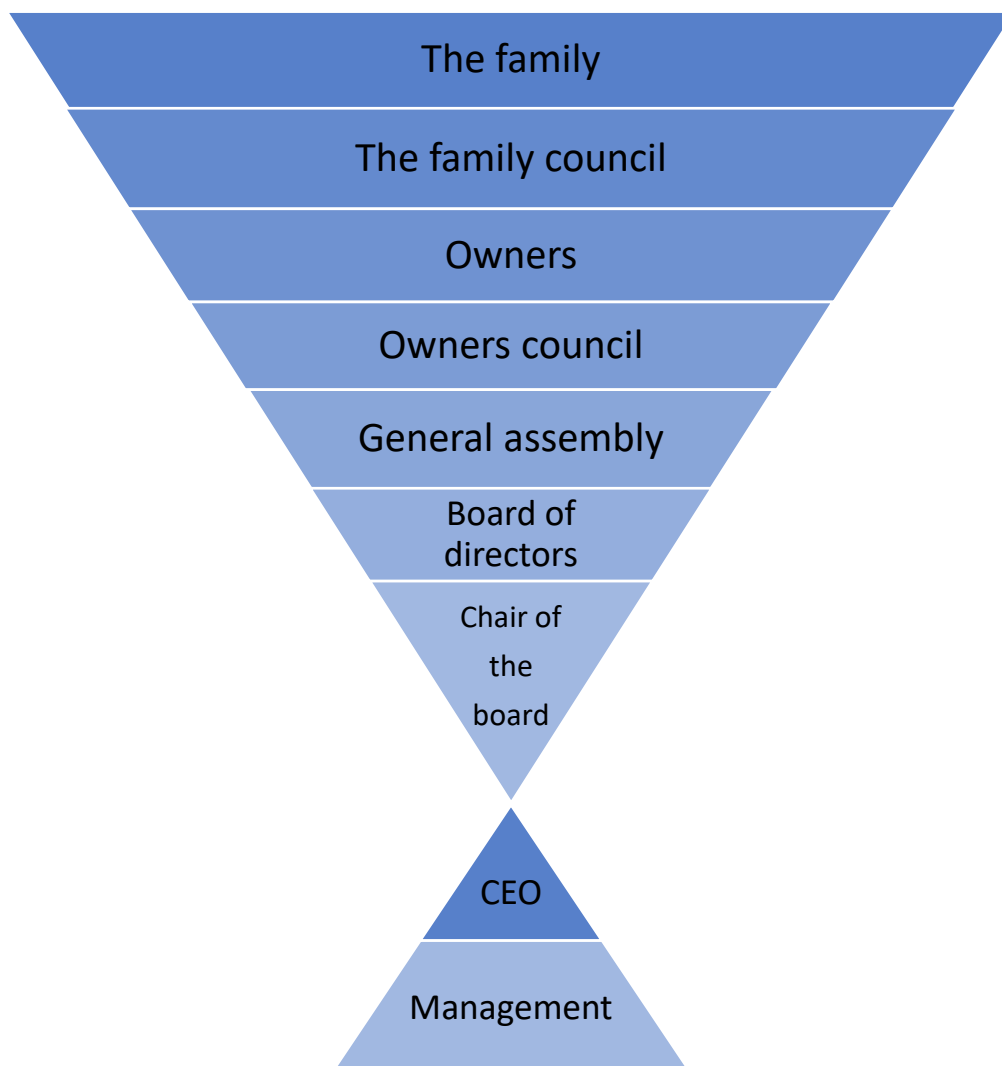
In the early 2000s, the 3rd generation received a minority position of shares, based on tax advisors' recommendations. The three siblings were invited to sit on the board together with their father and an external lawyer. At the time, there was no clear plan on the terms of succession, except the belief that the business should be passed on to the next generation at some point. For their father it was never a question of whether his children were going to inherit the family business or not. There seems to have been an idea that this would just happen "by itself", as it had done when he took over after his uncle. However, the succession proved to not be the straightforward process one might anticipate. The siblings were introduced over time to governance in the board meetings but remained proud owners for years, pursuing other career paths. Again, as a result of a temporary tax regulation in Norway the early 2000, the board had taken initiative to reorganise the business in a holding company structure. This led to a clearer division of roles and also a circulation of the chair of the board among the 2nd and 3rd generation.

It was not until 2016, in his late 70s that the father started talking about retirement and wanted to transfer a majority of the shares to the next generation. After being held back from operational involvement, the eldest sibling started taking responsibility of the real estate part of the family business. He was the first in the 3rd generation to take a leading position at the operational level in their businesses.

During a short timespan this entry coincided with a generational change in the operational part of the forwarding business. And during a couple of years, he took initiatives and through help from several external aides negotiated and took over the position as Managing director for the Forwarding business. The son, who had pursued a Master of Business Administration, consciously incorporated the leadership theory that he learnt through his studies to gain a closer relationship with the employees, amongst other things creating a leadership team. In the interview he expressed that he was happy with the fact that he had previous leadership experience and had previously run his own business which equipped him to tackle this responsibility.

The introduction to a model developed by the founder of FBN Sweden, Annelie Karlsson, became a breakthrough for the start of a real generational change. The father and son agreed to switch positions from CEO to President of the board. This kept the 2nd generation in charge but at the same time engaged and moved the responsibility and authority to the 3rd generation. It helped the father realise that he could still have great influence over the company without being an operational leader.

The top triangle represents the governance level, involved with setting the overall vision of the company, developing strategies and making decisions of high importance. And shows the different engagement levels owners can have without being operational. The bottom triangle represents the executive leadership, involved with the daily operational decision making, on a more detailed level. The father agreed to move from the operational level involved in day to day business to the governing level, becoming chairman of the board, and the son became CEO of the operational company.



Since the third generation took over the operational leadership, there has been a number of changes. They hired an external chairman of the board, as well as using their network to connect with several resources that could assist them in the transition. Furthermore, both sisters have successively started working in the family business on an operational level, mainly with the running and developing the real-estate. They have also supported the change initiatives through their board positions both in the parent company as well as on the daughter companies. This has all been imperative for the success of the company through the succession process.

The next step in the succession process was to make a retirement agreement with the CEO of the shipping business, who had worked in the company for over 30 years. This proved to be a challenging process, yet after a lot of work they have now made an agreement with a new CEO, and the current CEO has stepped aside and will into retirement in a couple of years.

Whilst in consultation with a head-hunter to find a new candidate to take on the CEO position, the son was faced with the question as to why he did not want to take on the position himself. Even though others had presented the idea to him, he had not truly viewed himself as a valid candidate until this moment. This would be the turning point for the family's involvement in the operational part of their business.

According to the family, it is crucial to not get fixated on following a detailed plan for succession. There will always be number of coincidences that should be acknowledge and seized when they appear. Success will follow if one is open and ready to respond to these opportunities when they presents themselves. To prepare for this it is vital that the next generation is introduced to the family business on an ownership level when they are young adults. In this way, they have the time to mature into the ownership roles as described in the model. Having one or several siblings with an interest and understanding of business and management, will make it easier for the next generation to take the role as change agent and lead the generational change process. It is clear that through his studies of successions in family businesses during his MBA studies and his leadership experiences in general, the son had equipped himself with the ability to identify and respond to opportunities in a productive manner, thus making it possible to act in due time.



REFLECTION QUESTIONS



- If you are the next generation who is waiting for the senior generation to initiate the succession conversation, can you take the initiative?
- Can you be the change agent in your family?



LEARNING POINTS

Keep trusted employees

Keep trusted employees that have been with the company for many years that truly know the values and aspirations of the company, such as the long-term lawyer and auditor in this case.

Succession is not a linear process

It is important to have patience and be aware that a succession is not a linear process. On average, the succession process takes between 10 to 15 years from the moment the older generation starts talking about stepping aside. In the meantime, one has to follow one's own interests and career aspirations, whilst still being available in case something should happen that causes the older generation to step aside.

Do not be afraid to change the family dynamics

It is important not to remain trapped in one's role as a child in interactions with one's older relatives. This is a natural response, but it is crucial to step out of this role and take charge of one's own success. If the older generation refuse to collaborate, and respond negatively to efforts by the younger generations, someone from the younger generation has to take initiative, and change will happen in an organic manner.

Build your CV to be a relevant successor

Gain relevant education and work experience to become the best possible owner. Being born into a family business gives the advantage of subconsciously obtaining industry knowledge and a business understanding from an early age. Build on this tacit knowledge with external knowledge from universities. Gaining work experience from other companies is relevant both to learn from and to improve your credibility as an asset to the family business, both within yourself and within others.

Keep educated

One should be in continuous search of knowledge and educational endeavour's to become the best possible owner.

Keep the senior generation informed

The best way to ease the process for the older generation is to keep them informed throughout the succession process and after.



ACTIONS TO CONSIDER



Education

Education can serve as a source of inspiration, and it can help develop a sense of confidence with issues related to a family business. Age should not be a limiting factor to seek further education. It can be anything from a short leadership program such as offered by the Institute for Management Development in Switzerland, or the undertaking of an entire MBA.

It is also valuable to gain an education within the family business, whether it be through work experience or an owner's trainee program. Actively learning from different parts of the company will allow invaluable insight into the responsibility of being an owner and where the next generation might fit in.

Family meetings

Establish regular family meetings to build trust across generations and discuss succession. This could also include training activities where the senior generation educate the younger generation about the company, or where external experts are invited to educate the whole family on topics like financial understanding or sustainability.



REFERENCES



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