

## **SIBLING RIVALS? COUSIN CHAOS? OR AN EFFECTIVE TEAM OF FAMILY BUSINESS PARTNERS IN THE NEXT GENERATION?**

### **SUMMARY**

**How does a business owner go about preparing teams of junior generation family members to be responsible business partners in the future, once they take over the business? By developing their ability to be an effective team before the business' success depends upon their teamwork. Early on, the responsible business owner in the senior generation must see to it that the junior group learns teamwork skills. This is accomplished by assigning difficult problems that the junior group must solve as a team, now.**

### **INTRODUCTION**

Many business owners are expecting or planning for their family, the next generation, to take over the business for them one day. That's what family firms do. Yet 70% are not successful in going from the first generation to the second, and only 15% are successful after the business is in the hands of the third generation. One reason for these dismal results is that siblings and cousins do not naturally work well together as business partners, and when the partnership falls apart, so does the business.

Just as unrelated people who join together as partners in a business need to learn how to own it and manage it together, groups of junior generation family members (successors) need to establish new "rules" that will allow them to share ownership and manage in a way that works for the business and for them as family members. Operating together in a business environment making decisions that have substantial economic consequences requires different team skills than those developed by taking on the neighbors in a game of three-on-three basketball. The oldest brother on the basketball court, who by size and age, forces his way may not own enough stock in the business to force a decision among other stockholders. Brothers and sisters competing with each other or one branch of the family taking sides against the other (e.g., me and my brothers against my cousins...) are learned "rules" in the history of many generations of siblings and cousins; "rules" that will not well serve successor teams in a business. New "rules" are needed, rules that support teamwork.

And what about future owners who will not work in the business? While developing teamwork skills among a succes-

sor group that will be active in the business is an obvious need, team development is highly critical among family members who own, but don't work in the business and those who do work in the business. The business and family will benefit if outside shareholders, before they become significant owners, develop a working relationship with their siblings and/or cousins who will maintain ownership and management positions within the business. This "working relationship" is teamwork, and it should be created by the team themselves, but with some skillful coaching.

### **START A SUCCESSOR FORUM**

A successor forum is a structure for team building to occur among a group of family members upon whom the future success of the business depends. A successor forum exists for the purpose of the junior generation's development. It is applicable when several family members will be involved and prudently adopted well before succession. A successor forum is a series of regular meetings among siblings and/or cousins of the successor generation; meetings that will allow them to prepare and to practice functions they will be called upon to perform in the future. As with any partnership, decision making will be an important function to practice, but more important will be *independent* and *interdependent* decision making and *self reliance* that develops from coping with the consequences of their group actions.

A successor forum is also for the purpose of testing the ability of the junior generation to operate under conditions similar to those they will face in the future. It is a test which

will produce evidence the family can evaluate to predict the likely success of a desired ownership, management and governance structure. Based on the progress of the successor group in a successor forum, a family can take encouragement in their desired succession plan and proceed, or they can modify or change it altogether to one that has a greater potential for success.

A successor forum is rarely called such. They are called partnership meetings, planning meetings, lunch-by-law, and any other name the group of future business owners wants to call them. The important point is not their name, but that they occur on a regular basis, they are used to tackle difficult issues and come to conclusions, and then the future partners live with the results of their conclusions and plans.

Properly set up, a successor forum can accomplish amazing results. A tool and die business was set up by two brothers in the early part of the century. The brothers left it to their two oldest sons who worked well together and expanded the business. Ten years ago, their grown children who worked in the business (three third generation family members; two from one branch of the family and one from the other) were encouraged to start meeting as a group. Among other decisions they were asked by their fathers how they wanted to own the company. The business was at that time equally owned between the two cousins from the second generation. Now, in the third generation, there were going to be three partners, two from one side of the family and one from the other, and everyone was concerned about how this would work. The third generation cousins, after a lot of discussion in their partnership meetings, decided that they wanted to all own equal shares of stock and presented this recommendation to their fathers. To the pleasant surprise of several long-term customers and employees of the company, the senior owners accepted the idea, even though it meant one side of the family would dilute its ownership and control of the business. That was ten years ago and the third generation's partnership meetings continue, but they are now used for successfully solving business issues.

## **CHARACTERISTICS AND ACTIVITIES OF SUCCESSOR FORUMS**

### **Who Should be Involved in a Successor Forum?**

- All future owners (and at special meetings, their spouses)
- Family members who are active as employees and managers
- Family members who will not be active as employees or managers, but will be owners

### **What are the First Steps?**

- Develop a charter or purpose statement
- Prepare a description of the meeting structure, e.g., frequency, minutes, leadership, etc.

### **What Activities are Possible in Successor Forums?**

- Group decisions on policies for future decision making, performance standards and ownership in the business
- Responding to dissatisfaction on the part of a junior family member, problem solving, action planning, and implementation of a plan
- Setting goals for individual achievement
- Visits to other family firms with effective family partners
- Presentation from outside experts/advisors on financial matters of the business, estate planning, compensation, conflict resolution, operational matters, etc.

### **What are Tangible Outcomes of Successor Forums?**

- Memorandum of understanding on how decisions will be made and how conflict will be managed
- Provisions of a buy-sell agreement
- A statement of purpose - why family members are involved in the business
- Policies for future family member involvement in and departure from the business
- Recommendations to the senior generation on future ownership distribution
- Family member performance review procedures
- Role/job descriptions for each family member
- Compensation policy
- Buy out proposals and counter offers in negotiations with senior generation

Goals for development and performance outcomes of successor forums should be based on the likely future governance structure for the business. For example, if three members of the second generation in a family business are expected to share equally in ownership and in the governance of a business, then consensus decision making would be a high priority skill for development in a successor forum. As a test, the senior family business leaders would look for consensus decisions on demanding issues. Succession planning offers many demanding issues, including the development of a common vision or strategy for the business, methods for resolving an impasse, and desired provisions of a buy-sell agreement. Slightly different objectives would be required if only two siblings will be working in the business with the third an outside one-third owner, and of the two that will manage the business, one is the obvious leader. A critical challenge for this group of siblings will be to develop guidelines for future decision making, e.g., what decisions will be made by the three together, what ones by the two who work at the business, and what decisions will be made by the leader alone. In addition, their success in the development of fair

buy-out and dividend policies will provide challenge for them, as well as insight for those who observe them in their struggle to find solutions.

## ESTABLISHING A SUCCESSOR FORUM

Successor forums can take the form of weekly, monthly or quarterly meetings. They should have all the trappings of official meetings such as written advance agendas, written action plans with assigned accountability for follow-through, and documented minutes. If a consensus decision making approach is being nurtured, responsibility for preparing for and leading the meetings should be rotated. If a more hierarchical method of governance is expected for the future, a leader can emerge and take responsibility for organizing the forum or the obvious leader(s) can assume this responsibility from the start.

A successor forum should include just the relatives that are going to own and/or work in the company. At times, their spouses might attend meetings. Also, if non-family members are to become significant shareholders, they should be members of the successor forum. If some family members will not be employees of the company, but will nonetheless become stockholders, then it is imperative that they too become members of the successor forum. Yet, under no circumstances should members of the family who are in the senior generation attend. The purpose of the forum is for the junior group to develop their ability to become an independent, interdependent, self-confident, and effective team.

In many cases, it will be valuable to a family to establish a successor forum at a planning retreat, collectively working out the forum's mission, developing guidelines for meeting practices, and establishing ground rules. In other cases, the successor group may initiate their own meetings, create their own structure, with the ability to draw upon outside resources as needed. A successor group that does this is already showing favorable signs of future success as a team.

Even while the successor group should meet without the presence of the senior generation, they will need outside assistance. The current advisors to the businesses or outside specialists can provide education in business strategy, estate taxes, team development, the concept of ownership as stewardship, corporate structures, conflict resolution methods, compensation systems, and other subjects which the junior group will need to adequately prepare for their responsibilities as partners and managers.

For all the benefits, a little caution is in order. Successors meeting together to discuss succession will likely want to know the timing of the senior generation's departure, if it has not yet been decided. Therefore, this structure provides a legitimate platform for the junior generation to advance the family's progress in succession planning. Yet, the junior generation should not use their forum for, nor should the senior generation be given reasons to view it as, a means of

undermining or gaining power over the senior generation. In some cases, it may be necessary to take aggressive steps to avoid the appearance of a successor forum as a meeting of a mutinous group. Suspicions may be reduced by simply distributing meeting minutes and/or through a member of the junior group systematically reviewing the agenda and minutes (results) of forum meetings with a senior leader.

"Do the siblings who are candidates for equal ownership have the ability to appreciate and use each other's unique talents? Is there a commitment to a shared dream? Can they constructively manage their rivalries?" According to Ivan Lansberg, a former professor at Yale and now active consultant and researcher of multi-generation family businesses, these issues are the predictors of future success of sibling partnerships and cousin groups. What happens as a result of the successor forum meetings will either demonstrate success to the senior generation, or make obvious the weaknesses inherent in this group. Under the right conditions, a successor group can prove itself a success or failure early enough for the senior generation to make adjustments if progress is not being made and implement an alternative governance or ownership structure for not only the success of the business, but the family too. All sports teams need a coach who sets the stage for team development, but also judges the team's progress and success. And, when the team is not working, the coach makes the difficult cuts and changes to the starting line-up. The successor forum is just that; it is a forum for development. For it to be fully effective, it must have the influence of a "coach," the parent or parents who gracefully make adjustments to the roster and let it be known that they will.

## CONCLUSION

The successor forum provides many opportunities for junior family members to learn and gain increasing levels of responsibility under the watchful eye of a coach before control of the business is placed in their hands. The owner(s) of a tooling and machining company who plans to leave the business to more than one offspring must coach them in team skills early. Introducing them to a successor forum and giving them challenges to resolve can help. By giving them challenges that they must overcome by relying on each other, they will learn how to be a team; a team that focuses on the success of the business, rather than each other.

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