How to succeed in Business without really trying…Inherit? Not really….

By Lin Giralt, MBA, CMC

In my 20 year career as a management consultant, I have met, interviewed and worked with over 100 successful and not so successful family owned firms – as well as a few dozen multinational corporations. Of the former, some were still headed by the "Patriarch" – the all-knowing founder who made no mistakes and was surrounded by a coterie of adoring children who hung on to his every word and whose raised eyebrow could communicate more in a split second than a Supreme Court decision in hundreds of pages. Yes, until this generation, the "Patriarchs" have been mostly male; thankfully that is changing before our eyes. Others had gone through transition and were now headed by professional managers, of which a select few had been taken public , finally a sizable group were in the hands of one of the offspring, nephews, an in-law or a trusted family member.

Fortunate in "inheriting a Business" ? Most likely…. "Without really trying"? I think not.

I have seen some happy transitions and some very unhappy ones, but even in the "happy ones" my testimony is that nothing is easy and success hardly ever comes without great effort.

Let me illustrate with some examples.

The tightly knit European Immigrant Family

One very hard driving European immigrant had started out as an accountant in an auto dealership. By hard work, wiles and wit he was able, after a few years, to gain the trust of the owners who gave him the opportunity to buy a minority share in the firm. This morphed into a larger share and eventually he bought out the original owners who wanted to concentrate on other, presumably more lucrative or less demanding, businesses. During this time, the Patriarch also founded a series of related firms: auto insurance brokerage, a major car rental master franchise, a reseller of spare parts and others. This Patriarch ran the business by himself for a few years and had a series of very capable sons and daughters, the spouses of these sons and daughters were also very capable in and of themselves. In fact, they were such a tightly knit family that I shall refer to these children's spouses as children as well. A perfect team, you say? Yes, but not an effortless one.

We were called in to help prepare the organization for the gradual retirement of the Patriarch – I am informed by one of the sons that he now lives a very happy life on a Caribbean island, with occasional trips to visit his offspring and the Mother Country in Europe. One of the key issues was how to ensure that the different arms of the family business group acted in concert even without the Patriarch's presence. Another issue was how to have a smooth handover while the Patriarch was still active. In this case we were helped because the offspring and the in-laws had only 'constructive rivalries' and the division of benefits was clear: there would be no winners or losers, but all had to row together. Before the Patriarch's retirement we set up a Senior Management Council composed of the offspring, the Patriarch's brother, a couple of key managers (I will call them "Consiglieri") covering the financial, administrative and legal areas, as well as the Patriarch when present. Until the Patriarch's retirement this Council was to have an Advisory role, upon his retirement it was to continue in a Decision Making role. The Patriarch was very wise in bringing up each one of the children interested in the business (and there were others that were not) through a training program at the company where he/she could show his/her mettle and capability in running the business.

An important element was the presence of non-family “Consiglieri” – yes, a term borrowed from the Mother Country. These were non family members whose capability and integrity made them invaluable advisors and supervisors of their respective managerial areas. These Consiglieri fulfilled a critical role in providing impartial advice to all the family members and served as a transition builder between the Patriarch and his offspring. They also helped to instill a “meritocratic” element within the group, showing non family employees that hard work would be rewarded and that a non-family member could rise to the pinnacle of the company.

Sounds effortless? Not really. It took a lot of effort to get the Management Council to learn how to work in unison. The role of the Consiglieri helped to smooth the transition, but the offspring had to make difficult choices as to in which company to invest for growth and there were the typical differences in opinion as to how much to invest and how much to distribute in dividends. The Patriarch had to accept that the time for handing over had come; in many ways his trips to the Caribbean facilitated this because it created a transition situation, one where he was still in charge but had delegated the day to day responsibilities to the next generation.

Is this a model for other firms? In some ways, the concept of having “Consiglieri” is a time proven one and could prove valuable for many family owned firms. The mixed family/professional Management Council is also a valid concept especially where there are various offspring and various businesses. The phased withdrawal of the Patriarch proved to be a useful method to let the next generation assume control while learning the business more fully and developing their own ways of working together.

Not so tightly knit Families

However, if the offspring are not willing to row together, then all you will get are rows, inspite of the best intentioned and well designed transition structures.

I can cite a variation on this case, this time within the Pharmaceutical industry. The Patriarch had numerous children with various spouses, they were respectful of each other, but not especially close as a group. Here the Patriarch, as in the above case, let some of the children train in his companies, helped a few of them establish their own firms and at the end, named the one child that he considered most competent to manage the largest firm of them all. Here there were no “Consiglieri”, the “Management Council” was more an informal sharing of opinions by the offspring and the companies were run more as a “Confederation” than as a “Federation” in the previous case. Different Strokes for Different Folks.

Solo Heirs that do not want to be in the Business as it is

What happens when the children do not really want to be in the Patriarch’s business? My M&A friends will say “Exit Strategy”. That is fine on paper, but it ignores one important element: selling privately owned firms is not an easy task, very frequently the offers received does not match the NPV and the value of the potential growth in the business simply because the risk perceived by the new owners is greater than the risk perceived by the owning family members. Other times, the heirs discover that the lifestyle and business opportunities that they have after divestiture are not as great as those they had before. Business contacts that would open new and very attractive opportunities for business migrate to the new owners while, in their place, Investment Bankers offer single digit returns on passive investments. They have migrated from active business creators to passive receptors of dividends. This if fine for some, but not for others.

A solution I have seen in once case I advised was for the heir – in this case the son inherited the business while the daughter inherited a fair share of the dividends- to use the existing business to launch other businesses more in line with what he really wanted to do. He finished installing a professional management team and used the administrative structure, business contacts and financial strength of the major company to venture out into new areas which he felt were more satisfying for him. Was it fair for the sister? Perhaps not since she was indirectly bearing some of the cost and risk without an exactly equivalent upside. But in the end it worked since the new investments did not imperil the stability or growth of the larger firm and it was an expense that enabled the firm to maintain the son in the business with his 20 years of experience and know how.

Another case is also typical. Here the father, a chemist, had developed a fairly strong local brand for his mainstay product and had started to expand the product line. The son, also a chemist , saw he had greater strengths in operations, quality control and logistics than marketing. Although he did not abandon the strategy of broadening the product line, he saw that as a low cost manufacturer he could grow the company as a contract manufacturer to third parties. In his daily business he had been approached frequently by independent business owners that needed contract manufacturing. Although this may run counter to established business strategy – you are supposed to move downstream to the customer, not upstream – in his case it worked well and it fitted his personal qualities, preferences and skills. While maintaining the established product and adding a few selected new ones, he proved very successful at positioning his firm as the contract manufacturer of choice for a great number of chemical process based products. I know he is enjoying his boat.

Since then, I have seen other cases where the existing business does not match the heirs' aptitudes or long term career goals. The solutions above present possible strategies: use the 'anchor firm' to develop new lines of business partially linked or totally independent from the main business, but trying to leverage those capabilities, active business contacts and know how that the main business provides.

Concluding Thoughts

As in most cases in life, there is not one path to Rome, there are many. In all these cases, the heirs had some links to the business and had worked in it before the Patriarch retired. In all these cases, however, a significant amount of effort was required, be it setting up the Management Councils, putting the family's interests before one's own, or figuring out how to stretch the current business so that it was both viable and in line with the heir's personal strengths and disposition. "Without really trying" – I have not seen that yet.

There are other cases where the son or daughter is in a profession totally divorced from the existing business and may not like or want to be in business at all. In these cases the "Exit Strategy" seems more attractive since a decision making role – even in a Board of Directors chair - in an industry unknown to one or in a business environment one does not care for is not viable in the long term. Boredom, indecision and lack of proactivity can affect a business just as much as meddling and inopportune decisions. But I shall talk more about this in my next article.