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When Succession Skips a Generation

Hiring non-family executives helps ensure longevity, but it requires strategic finesse.

As discussed in **a previous column**, next-generational succession is one of the main challenges facing family businesses globally today. Owner-managers who are confronted with this issue often have to turn to professionalising the family firm by bringing in outsiders.

The process of professionalization – transitioning from a founder-led company into a management-led organisation – is meant to enable founders to focus more on their core competencies. But it is very difficult to get right because it touches on emotional issues that non-family firms never have to confront. It can also lead to some unexpected consequences, as the story of Zhang Gang, the founder of the franchise-based restaurant chain Little Sheep, demonstrates.

A good shepherd

Born in China's Inner Mongolia, Zhang turned a relatively unknown Mongolian lamb-based, hot-pot dish into a mainstay of Chinese cuisine in the early 2000s. Little Sheep quickly became a franchise group with hundreds of outlets. To attract and incentivise key people, Zhang shared the ownership with long-term employees and franchise owners who deeply respected his leadership. Although Zhang was still in control of the business following five years of rapid growth, Little Sheep counted more than 50 owners who were committed to building the franchise. Without the dedication of the non-family managers, Zhang could not have grown Little Sheep into the powerhouse that it became. He started a process that went from a one-man band to a full symphony orchestra.

For many founders like Zhang, embarking on the professionalization process is absolutely essential for the survival of the family firm. If family members are not available to take over the management of a fast-growing private firm, founders have no other choice but to recruit non-family managers externally. By professionalising the executive suite, founders can free up their precious time to expand the scope of their leadership and vision. They can focus on big picture questions to overcome roadblocks, by adopting new business strategies, starting new investment projects, making long-term plans, restructuring capital assets, conquering new markets or relocating production to other regions.

Beyond the next gens

By placing the operational side of the business in the hands of competent professionals, founders can ensure that their families and firms survive at least until a family member is ready to take over the top job. Having a long-term succession plan in place, even if it means skipping a generation, can make a company far more credible in the eyes of employees, customers, suppliers, investors, bankers and other stakeholders.

During the professionalization process, the core family values can also be transformed into an organisational culture that adds depth to recruitment, training and retention of talent. In addition, the more a founder can convince the next generation that the firm is managed like any other professional firm, the more likely family members will feel committed to playing an active role generation after generation. Professionalisation of the family firm can also attract investors such as new owners, bankers and venture capitalists in the public-equity markets.

Three key elements

Below are some of the key elements of the professionalization process:

• Recruit non-family managers to the executive suite, while encouraging them to make decisions that are in line with the founder's vision. By providing incentives to non-family managers, founders can benefit from their commitment to best practices.

• Develop strategic leadership whereby founders develop a two-pronged approach to management:

- For family members: Finding the right roles and jobs for current family members and next gens, so that the firm can continue to benefit from the interaction of generations.
- For founders: Taking less of an operational role and more of a strategic role in order to take the company to the next level.

• Empower the board by ensuring that the directors are fully engaged in the selection of non-family managers. In so doing, founders avoid the risk of destabilising the board when the time comes for the directors to function in the absence of the current chairman.

By hiring non-family executives, founders can put themselves in a strong position to communicate their strategic vision, objectives and goals while infusing the family spirit into the organisation. Stakeholders can then stay focused on the operational and strategic direction in which founders are trying to take the company.

Most founders have handled the professionalization process by moving out of the executive suite and into the boardroom as chairman, while some have ultimately sold their businesses to outside investors. In fact, Little Sheep's Zhang was one such founder. Having diluted his share of the ownership, he could no longer run the business the way he wanted it to be run. To avoid conflict with the board, he decided to sell his stake so that the business could survive and continue satisfying its customers. Its current owner Yum China has continued the business in pretty much the same way that the founder would probably have. In that sense, Zhang's values live on.

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