Rising to the Challenge of Succession Planning in Family Firms

By Morten Bennedsen , The André and Rosalie Hoffmann Chaired Professor of Family Enterprise at INSEAD and Academic Director of the Wendel International Centre for Family Enterprise

Finding a family successor is one of the greatest challenges for family firms but when done correctly, it will deliver value for the company over and above any other strategy.

For all family firms there comes a point when the founder has to retire. The family has to then decide whether to keep the firm family-owned and family-managed. When there are strong assets (the unique contributions that only families can bring to the firms) underpinned by efficient governance structures, a family succession is the right path to take. But how to ensure the path ahead is clear for the chosen successor?

My book "**The Family Business Map**" co-authored with **Joseph P.H. Fan**, identifies a number of challenges that families and businesses across the world face during a succession process. These include cultural issues, the transferral of family assets and competency. The first three are: 1. The challenge of **succession culture**

2. The challenge of **transferring family assets**

3. The challenge of **being competent**

When culture matters

It would be unrealistic to believe that the culture of any given country doesn't affect the succession planning of family firms. In fact, this is probably the strongest influence over the firm's decisions in this process. A succession model which works successfully for, say, a 40-year-old U.S. family business couldn't easily be applied to a Chinese Confucian-based family firm in Malaysia where the sons would typically inherit the lion's share.

To take a very different example, consider the case of Chief Abiola of Nigeria, the country's most influential entrepreneur since independence, who lost his entire business empire leaving his more than 40 children with nothing to inherit — in large part due to the lack of an established culture of transferring wealth from generation to generation in Nigeria.

In contrast, in the Middle East, firms are to a large extent governed by Sharia law which dictates certain protocols that have to be respected and in Thailand and India, for example, children rarely go against their parents' wishes. No one culture is easier than another and the families simply have to work around the cultural reality that the firm and the family live in.

Transferring the family assets

Powerful family assets are the pillars upholding family business strategies and it is their transfer from one generation to the next which lies behind the success of every family firm. Whether the assets are in the form of the firm's heritage, powerful business networks or core values, the key is to find common ground between the generations. The assets are typically transferred through an apprenticeship model where the younger generation are exposed to the family firm from an early age and are taught everything about the firm over a long time frame. In addition to providing the younger generation with a strong platform from which to take over, this model also prepares the older generation to let go.

This model works successfully for firms across the globe. The Mulliez family stands out in France's business landscape for successfully transferring their values. The family's business stable includes the retail distribution groups: Auchan, E. Leclerc, Decathlon, Flunch and Leroy Merlin,all grown from the founder's textile manufacturing business, Phildar. In 2011, the family could count 780 direct descendants, 70 percent of whom belong to the family association which controls the business interests. Their family motto, "tous dans tout" (everyone in everything), reflects the core values of solidarity, family heritage and responsibility towards future generations. With a large pool of talent and a strong entrepreneurial spirit among family members, the Mulliez family is a role model for families in business around the world.

While the apprenticeship model is successful at transferring family assets, it doesn't prepare the younger generation particularly well for changes in the business and the economic environment, nor does it facilitate a change in business strategies. A particular challenge among Asian family firms is the third generation who went abroad to study and returned with a mix of old Asian and Western values. This is a recent phenomenon which is expected to become more prevalent given the globalised world we inhabit.

The measurable CV

The succession decision will involve many questions for both the older generation and the younger generation alike. For cultures where it is expected that several members of the younger generation will take over the ownership and management of the family firm, answers should be sought to:

- How to choose between equally able children?
- Will they make good business leaders or will the company suffer under their leadership?
- Will the heirs collaborate in the future – do their personalities blend well – or descend into sibling rivalry?
- How do we nurture the competencies necessary to take the firm forward?
- And how shall we support others who wish to pursue a career outside the company?

Family firms are typically founded by entrepreneurial creative people who build the company on hard work and experience, without necessarily having formal training. Thirty years down the line when the succession question arises, the company is no longer the same entity it was when it was founded. The workforce will have increased and new markets might start to look attractive. For that reason, it is valuable for the younger generation to gain experience outside the firm — whether this involves going to business school or having job, board or CEO experience elsewhere — which can then benefit the family business when they return later.

The De Kuyper family succession process is one example of a very formalised approach to finding the right successor for the family business which I have written about in a previous **article**. My research has shown that a combination of the apprenticeship model and education/experience outside the family firm is the ideal path to take.

Succession planning typically takes ten to thirty years to complete and is best done when communication is transparent and shared among family members so that everyone can envision the path ahead. For family firms with strong family assets and few roadblocks, a family succession is the surest road to success.

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Morten Bennedsen is a Visiting Professor of Economics at INSEAD. His main research area is the governance of family firms and other closely held corporations in a global context.