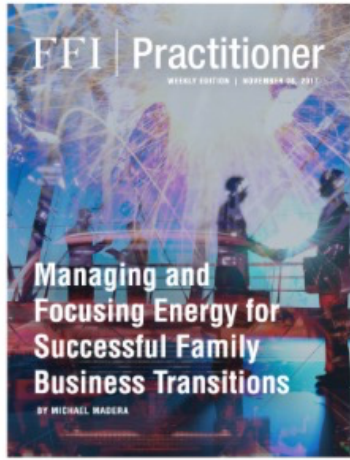


SUCCESSION



Managing and Focusing Energy for Successful Family Business Transitions

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From FFI Practitioner

This week's *FFI Practitioner* Edition by Michael Madera categorizes the mindset of many family firms in the midst of transition into "Hold, Mix, and Shift." Using one of his clients, a 70-year-old auto parts company, as a case, Madera shows us how to utilize this model to keep positive energy flowing towards healthy family dynamics and successful transition of the family legacy.

I recently had the opportunity to choose a new car for my family and, after doing way too many hours of internet research, I found that the choices boiled down to three options:

1. Standard gasoline powered internal combustion engine
2. Hybrid drive trains, combining gasoline and electric motors
3. Electric motors and various sizes of batteries and driving ranges

As I considered the options for new vehicles, (email me to hear what I chose <grin>) I noticed that framing the choices in these three categories is quite similar to the options often available to family enterprises at moments of transition, both in ownership/succession and business strategy considerations – and could be labeled "Hold, Mix and Shift":

Model	Family Ownership/Succession	Business Strategy
1) <u>Hold</u> legacy approaches	1) Primary generation holds power/control	1) Hold legacy technology and/or business model
2) <u>Mix</u> legacy and new approaches	2) Mix of incremental or partial transfer of power/control	2) Mix of legacy and new pursuits
3) <u>Shift</u> to a new approach	3) Shift power/control to the incoming generation	3) Shift to new technology or business model

“OVER THE YEARS, I’VE NOTICED THAT THE GREATEST RISKS TO STRATEGY DECISIONS OFTEN INVOLVE EMOTIONAL OR FAMILY DYNAMICS-DRIVEN CONSIDERATIONS, SUCH AS DENIAL, PASSIVE-AGGRESSIVENESS, OR BIASED JUDGMENT BASED ON CLOSELY-HELD BELIEFS THAT ARE NOT CAREFULLY EVALUATED.”

As we practitioners know well, the largest risks to healthy energy flow in family enterprises usually occur during times of succession and transition in ownership and business strategy. This is when volatile, ungrounded and unpredictable dynamics often increase, sometimes leading people to choose to unplug or cut-off from some or all aspects of family or business life.

In my experience, these risks increase when families conflate the process of family succession and choice of business strategy. The trick is to address the concerns in each circuit independently; then look at the impact of options on the broader interdependent systems, seeking to balance energy flow and boundaries to support both family and business needs. This article will provide a model and tips for talking with and helping families ride the currents of change safely and productively.

For example, consider the options for a client of my firm, an auto parts company that pioneered a new method for building specialized parts in the 1950s and is now considering options as the 2nd generation owner prepares to retire, and two of his three children are working in the business. This firm has many opportunities to build on its 70 years of success, having a strong and stable core business in an industry that is also evolving rapidly. Here are some options available to them, framed in the Hold/Mix/Shift model:

Model	Business Strategy Options	Risks
1) <u>Hold</u> legacy approaches	1) Legacy parts design and manufacture	1) Deny changing markets/environment, miss opportunities
2) <u>Mix</u> legacy and new approaches	2) Pursue parts for combustion and electric motors	2) Underfund new options or other ways of undermining or sabotaging new approaches
3) <u>Shift</u> to a new approach	3) Explore leading edge tech, e.g. parts for automobile engines, wind turbines and other emerging electrical applications	3) Lack of rigorous analysis; imprudent or biased judgment

Over the years, I've noticed that the greatest risks to strategy decisions often involve emotional or family dynamics-driven considerations, such as denial, passive-aggressiveness, or biased judgment based on closely-held beliefs that are not carefully evaluated. In this case, there is a strong tension between a Hold and Mix strategy between the 2G and 3G leaders that had simmered for years. The 2G leader and his father, the founder, had their initial success in parts for internal combustion engines and saw little reason to change.



The 3G leader, now in his late 30s, was highly motivated to push into new applications and electric motors to position the business for growth, as his own father had done decades before. The 'Mix' solution emerged for this family through the recent hiring of an external sales executive with a track record of success in negotiating deals for electric motor components. This move is providing a rigorous test for the 3G leaders' strategy along with the introduction of business judgment that is more insulated from familial and personal dynamics.

As family enterprises consider addressing succession of controlling ownership, we can use the Hold/Mix/Shift model again to frame choices and risks.

Model	Family Succession Options	Risks
1) <u>Hold</u> legacy approaches	1) Founder/current senior generation holds control	1) Incoming generation gets frustrated with lack of change, strong emotions emerge, risk of withdrawal/unplugging from the business
2) <u>Mix</u> legacy and new approaches	2) Shared or compartmentalized control (of different divisions or functions)	2) Indecision and/or ambivalence on part of Senior generation; experienced as passive-aggressive by incoming generation
3) <u>Shift</u> to a new approach	3) Pass control to incoming generation	3) If incoming generation pushes hard for large-scale change or full control, this can be perceived as rejection of legacy/historical methods and/or reactionary

“WHEN WORKING WITH FAMILIES ENCOUNTERING SUCCESSION CHALLENGES, I SUGGEST WORKING SEPARATELY ON BOTH FAMILY AND BUSINESS ISSUES USING RIGOROUS AND SYSTEMATIC METHODS TO INCREASE AWARENESS AND SKILLS, AND THEN SEEK SOLUTIONS THAT OPTIMIZE STRENGTHS AND MINIMIZE RISKS.”

SIDEBAR



Addiction, Advisors and Alliances: Working Together to Address Complex Family Issues

FFI Practitioner
article

by Michael Madera

Even within the healthiest family systems, advisors to high net worth families have to balance competing agendas, challenging family dynamics and the preservation of wealth.

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In addressing ownership transitions, conflicts usually emerge over the pace of change and adaptation in the business. Often the senior generation members are more risk averse and conservative in their approaches, while leaders in the incoming generation are eager to make changes to keep up with (their perception of) evolving conditions, and to begin to make their mark on the family enterprise. These situations are ripe for misunderstanding and difficulties since, again, the motivations of each generation are sometimes determined by family dynamics as much or more than careful analysis. In the case of the family with the auto parts company, the 2G owner has retained his title as CEO and his 95% ownership, even though he has been much less involved in the business due to recurring health problems. This ‘Hold’ type of situation leaves the incoming generation feeling in limbo and unsure how best to support the family and bring more active approaches to ownership responsibilities.

Recommendations

To adapt to evolutions in business and family systems, families need support to evaluate and change long-standing habits and relationship patterns. By analogy, old wiring in a house needs to be upgraded to handle demands for more power and to maintain good insulation to prevent short circuits and burn outs.

When working with families encountering succession challenges, I suggest working separately on both family and business issues using rigorous and systematic methods to increase awareness and skills, and then seek solutions that optimize strengths and minimize risks.

Family

Goal: increase awareness and analyze impact of patterns and tendencies in family system, then increase skills and build structures. These can help to make 'wiring' more robust and put 'circuit breakers' in place to avoid overloads and burn outs.

Increase awareness

- Use genogram creation and analysis to map out the patterns over generations to increase understanding and put current dynamics into perspective
- Assess and review personality styles and strengths of family members (using tools like MBTI or DISC), to increase individual self-awareness and provide shared language for addressing relationship patterns
- Assess and review styles of communication, decision-making and risk-taking of family members to increase self-awareness and to understand and talk about each other's preferences

Increase skills

- Provide education and training in emotional intelligence and communications skills to build capacity to handle even highly charged interactions productively

Facilitate individual and group conversations to help family members talk about hopes and fears regarding change, to share concerns, normalize anxiety, and build towards improved communications when feeling stressed.



Put structures in place

- Establish and document agreements and policies starting with less contentious concerns to provide good boundaries and clear expectations of conduct and decision-making
- Facilitate and train family members in conducting well-structured meetings to increase confidence and provide regular and predictable venues for discussions

Train family members in identifying situations where emotions or conversations start to get too hot to handle, and provide coping strategies to reduce intensity or pause conversations to avoid explosive and damaging interactions.

Business

Goal: Decision processes are insulated from family dynamics and are well-informed to manage risks and exploit opportunities

- Help family members monitor and analyze conversations to identify how family dynamics may be influencing business considerations
- Perform dispassionate business analyses to increase awareness of options/risks using methods to drive rigor and logic into decision-making, e.g. tools like SWOT analyses and McKinsey 7S analysis
- Create or update formal Business Plan for the next 2-3 years, to continue to assess and address risk and to increase clarity and confidence in strategy going forward

Across Family & Business Systems

Goal: Integrate choices across systems & design opportunities for collaboration and cooperation

- Identify key strengths and talents of both the family and business systems
- Seek out opportunities to develop and expand on strengths, while identifying tendencies or interaction patterns that risk reducing effectiveness
- Conduct 'what if?' simulations to predict and develop coping strategies for situations where family dynamics tend to overly influence business or ownership decision making

Using these and other approaches, practitioners can help to keep the energy flowing to support the greater good of healthy family dynamics and to ensure the passing on of a positive legacy.



About the contributor

Michael Madera, ACFBA, is a consulting psychologist and executive coach with 18 years' experience in the areas of individual development and organizational consulting. As an entrepreneur, he managed two food products companies before seeking his psychology degree. Michael can be reached at michael.madera@maderapartners.com.

About Madera Partners Consulting

Madera Partners Consulting was founded in Acton, MA in 2003 with the goal of partnering with clients to support their growth and prosperity. Originally focused on assessment and development of managers and executives, the mission of the firm has grown to be more responsive to clients' needs for processes to develop innovative strategies and continuously align people with these strategies.

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