A seamless transition

Passing the baton to new leaders at family-owned firms must be planned carefully to ensure a smooth changeover

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Planning is key to a smooth handover

For any family-run business, the question of a change of leadership is bound to be raised at some stage in the company's development as one generation approaches retirement. Preparing well in advance for the change will pay dividends.

Although this is an important issue, for many it is an awkward one, as it involves the CEO giving up some or all control of the day-to-day operation of the group. There are also different personalities and skill sets to consider when planning for a change.

According to Ann Kinkade, owner of Lucid Legacy Consulting, if the leadership wants this to be a seamless transition then it takes time – at least five years, and possibly as many as 10 – which is not something most family business owners anticipate.

She suggests the future direction of the business should be the first question, rather than who the new leadership should be. Instead of thinking about whether they want family or non-family members for the new leadership, the owners should be thinking about the business goals.

"They have to understand what they can change, and what is off the table. Communication is a normal challenge, as is being transparent throughout the whole process. Being transparent about communication requires you to know what you want – you have to do some soul-searching – that's the hard part."

ROYALE PIGMENTS AND CHEMICALS, INC.

John Logue, CEO of the Royale Pigments and Chemicals, Inc, joined the company 10-11 years ago after working for a big corporation – International Paper – for 16-17 years. The first thing he noticed was that coming from a big corporate to a small company there are far fewer resources available to you.

"You have to wear more hats and you can't delegate as much as previously," he says. "Also, the way people are managed is different sometimes – people are a lot more entrenched in family companies."

Logue had to earn the respect of colleagues and employees. "Whether family or non-family you have to earn your wings regardless of where you came from. If you go into areas you know, you can make an impact right away."

Logue came from a corporation with clearly defined roles and when he arrived at Royale, the first question was: "What role do you do?" Logue merged into the finance role because he understood it.

"Once you have a grasp on the finances you can spread your wings a bit and get involved in the day-to-day operations. After I'd learned and conquered the operations role, I took control of that. Then I slowly learned the customers and accounts. This took three to four years in total."

Logue says he brought in new processes and had to ensure the employees followed them, having to be very firm when meeting resistance to change.

"You have to define roles clearly, and can't come in like a bull in a china shop. You have to understand the intricacies of the business before you make any changes."

He adds: "Going from a structured corporate environment, you're used to certain core values. We had one employee retire or leave, as it was a continual chafe between him and me on just about all matters."

For the new leaders, there needs to be an understanding that they are walking into a well-established business, normally with a well-established strategy, systems and procedures.

Uncertainty among employees about leadership change can be a distraction, says Kinkade. The sooner the current leaders can communicate on leadership change the more anxiety will be reduced amongst employees and customers.

"If a family member is chosen, they need to have the right skills and experience; if they do, employees will feel secure and customers will realize that the company has staying power. Think about the business needs rather than who is available. The existing staff may not have the right skills, and you may need to go outside."

Kinkade says new leaders should get a sense of how far others can embrace change. "They are going to want to make change, so it would be a good idea to test the water with new ideas and find out about any sacred cows they may need to question. Will they be handcuffed or supported in making change?"

She points out leadership tenure is about 24 years in a family company, whereas as at public one, it is often just a few years. In general, planning and decision-making are more long-term and evolutionary in family-run businesses.

The owners should identify their values and goals, and transmit them through the company. "It's hard for a new leader to be successful if they don't understand what the family and/or owners, ultimately, want. It's important to have a strategy but it could be the next leader creating that strategy."

In terms of goals, the family needs to decide if they want to commit to remaining family-owned. Owners also need to consider the degrees to which they want to be philanthropic, innovative, expand, and ultimately determine why the company is better because their family owns it. Addressing this question is essential, says Kinkade.

WHO IS IN CHARGE?

If the person leaving is selling their shares and retiring it can be very freeing for the next generation or new leader to know that person is not hovering, she says. If they do remain available, it can be valuable because it provides continuity and security. "Either way can work; however, if there is ambiguity about who is actually in charge, or if it was done abruptly, without adequate planning, it leads to conflict."

Family members have to remember what role they are in at the moment. "Am I the daughter now or the vice president of operations? They are always in the spotlight and for family members working in the company it's more of a lifestyle than a job. The entrepreneur who set up the company may have signed up for that but others may not be aware of the high visibility."

Kinkade says developing an advisory board in advance of succession is a really good idea. Companies can create their director criteria in the form of a board prospectus and then solicit candidates. There are services to help find directors or businesses who can leverage their own networks. It is best not to have friends, your attorney, accountant or other paid service providers serve as directors on your board.

"Consider skilled professionals who are adept at managing complex dynamics serve on your board, as this is an essential aspect of family business governance."

It is a good idea to have colleagues from outside the distribution industry, as they may ask the best questions to challenge assumptions. Boards typically meet quarterly for a day, but for a succession or another situation, those meetings might be more frequent. A typical remuneration benchmark is the CEO's rate including all perks divided into an hourly rate and then converted to a daily rate. Directors are paid for meeting and preparation time. ■

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ROSS ORGANIC SPECIALTY SALES, INC.

Erin Coulter became chief operating officer of Ross Organic Specialty Sales Inc. in 2010 and her sister, Stephanie Leshney, became president and CEO. Running the company together relies on good personal relationships and well-divided roles. Stephanie says, "You may find it hard to believe, but these sisters actually get along! I think a big part of that comes from our mutual respect for one another and the fact that we have very clearly defined roles."

She says their shared vision for the company means they trust each other implicitly so they tend to allow each other to "own" the decisions they make concerning the business. "Erin does an amazing job focusing on the internal operations of the business and I focus on the external customer and supplier-facing aspects. We also each know when to push and when to pull back during our discussions."

Decisions are collaborative, everyone bringing their own perspective. "Between the three of us [Erin, Stephanie and father, Bill – founder and CTO] we consider the operational, industry and technical impacts of our decisions and generally come to agreement very quickly. It is great to have our father as a sounding board for critical decisions as he is able to provide great historical perspective and insight."

Stephanie highlights the danger of short-termism as the downside of listed companies compared with family-owned firms. "Major corporations tend to focus on the concept of creating shareholder value. As such, we see them enacting short-term strategies that may not really benefit the organisation – or their customers – in the long term."

As a family-run business, they take a longer-term view. Employees, suppliers and customers are seen as part of the family dynamic so they look for ways to drive value 360 degrees and over a much longer time frame.

"Our father started this business 27 years ago, and we have had a long, steady, consistent growth profile. We are comfortable with this longer view of the business, and don't feel the pressure of unaffiliated shareholders driving us to make decisions we don't think are consistent with our core values."

A family affair: Stephanie (left) with Erin

JR HESS COMPANY

Patrick Hess joined family-owned JR Hess Company five years ago, having previously worked for a small law firm and then a large public company, which had a much different management structure. His current role is marketing director and legal counsel.

He says he and his father, Peter, do their best to keep family life separate from their business relationship. "People often ask if it's a tricky balance. I think it largely depends on the personalities of those involved, and believe we've been fortunate in that we're able to strike this balance and maintain a healthy father/son relationship apart from the business."

Peter adds, "That's always difficult in a family business – how do you separate the dinner table from the boardroom? You have to be fully cognizant of it. You talk business and try to limit emotion. Having other key members of the business from outside the family has a stabilising effect."

As CEO, Peter looks for consensus because he wants everyone to buy in. He asks himself: "Is my job as CEO to manage a 'business', which happens to be a family business, or am I managing it for the 'family'? I try to operate it as a business which happens to be an independent family business."

Peter wants everyone to be involved and to feel they are a stakeholder. The company operates as a team with big issues being discussed openly.

Patrick adds, "During each experience, I always looked up to the kind of company we have – it faces the challenges of a small business, but remains collaborative, creative and entrepreneurial."

Father and son: Peter (left) and Patrick