

Fairport's Five

Behaviors to Successfully Engage the Next Gen in a Family Business

If you work with or are part of a family business, you are all too familiar with the troubling statistics regarding succession planning and engaging the next generation of leadership. Below are five best practices to prime the next gen to take the reins.

- 1) Recognize that transitioning leadership is a process. In order for the transition of leadership to be successful it must be viewed as an ongoing process, not a single event. As part of this process, the next generation has to want to assume the role of leadership; they cannot be forced or coerced into it which almost always ensures failure. The most successful results come when the next generation has an ownership mindset. It's the difference between thinking like an owner and thinking like an employee. It is important for the next generation of leadership to have "skin in the game" by buying into ownership. This means having their own financial resources committed to and invested in the great future of the business.
- 2) Start the grooming process early. After understanding that transitioning leadership is process, it is equally important to understand that starting this process early is critical. The most successful family businesses realize that their human, or family capital is their greatest form of wealth and it needs to be managed just like any other asset. Starting early is about embracing the notion of "patient capital" – making long term investments with a long term time horizon and not being focused on short term results. Understanding the dynamics of a business and what it means to be the leader takes time and deliberate grooming. A mentor can play a key role in this process and need not be a family member; in fact, some of the most impactful mentors are non-family members as their perspective and advice is often viewed as more impartial.
- 3) Communicate, communicate, communicate. In the absence of consistent and clear communication, individuals (whether they be other family members or employees of the business) will jump to their own conclusions about the future of and stability of the business. To this point, it is becoming more and more common that lenders require a formal succession plan to be in place as a part of lending covenants. Transparency and communication around future leadership is part of a well-conceived and deliberate plan.
- 4) Establish and leverage an outside advisory board. A challenge faced by a number of family businesses is having outside perspective around strategic issues. In addition to providing strategic perspective, an outside advisory board can be part of the leadership transition planning and mentoring process for the next generation. These boards are most effective and impactful when they are comprised of a large percentage of non-family members, usually individuals with industry experience and/or skills that align with the future growth trajectory of the business. An advisory board can also be helpful in providing a level of accountability that may be absent.
- 5) Create and LIVE a family mission statement. Having a family mission statement that reflects a shared vision and sense of purpose helps create a strategic mindset for the future. Without a vision, it is likely that there is also little structure around leadership succession. A family's mission statement should embody and align values, vision and purpose. Many family businesses generally agree about what is important, however very few actually take the time to document their mutual agreement in a written document. A family mission statement can be as simple as defining the set of common values that are important to the family and the business. It can also be more complex in identifying current and future leadership roles and other governance issues. Many successful family business groups use their mission statement as a tool to engage the next generation. It also helps provide next generation leaders with a sense that they are stewards of not only the business, but also the family legacy.

The bottom line is that family businesses that have been successful in engaging the next generation, molding future leaders and transitioning leadership have done so when they started early with clearly defined timelines and goals, viewing the transition as an ongoing process that requires deliberate planning. Success is not an accident.

If you'd like to discuss any specific challenges you are facing in your family business, please contact a member of your Fairport team or family business practice group leader Andrew Connors at 216-431-2754.

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