A Letter to the Younger Generation

First he killed his half-brother, Amnon, for dishonoring their sister. Then he undermined his father's authority, inveigling himself with his father's subjects. He promised them a better regime, if he could only be their king. At last, he forced his way into his father's harem, a symbolic gesture proclaiming himself the king, and soon after he waged war against his father, the rightful king. Absalom never did succeed David to become king of Israel. Instead he died while fighting his father's army - an eventful, but ultimately disastrous, succession. Unlike Absalom, you will probably not encounter incest and murder but you may experience resentment, anger and as you finally assume leadership of the business, the overwhelming need (of the outgoing generation) to meddle.

You may be tempted to throw up your hands now and opt for the Absalom style of succession, but before you do, remember that succession planning is a *process* and not an event. And because it is a process, and a lengthy one at that, it can be managed successfully and done well. Several things are key. Plan well ahead and support the process by staying involved. Gain experience and credibility away from the company and use the period prior to joining the business as a useful time to do this. Be aware of the many issues that may arise, anticipate them and prepare for them. Promote a formal, preferably public, handover of authority and build your own life and perspectives. Above all, resist the temptation to follow Absalom's succession shortcuts – as we have seen, they do not work.

Plan Ahead and Define Your Vision for the Business

Succession planning is a knife that cuts both ways. Even as you, the incoming generation, eagerly await your accession you also must start to plan for your own eventual handover to a younger generation.

As the future leaders, you must understand first the outgoing generation's vision and strategy for the business, and develop your own vision for it too…including the succession plan. Working together to set out a plan for the process is an excellent way to get involved early in the succession planning. Share your vision for the future of the business with the outgoing generation. Succession planning should be a joint effort between the incoming and the outgoing generations, so get involved early, and stay involved throughout the process.

We see this happening at Corporación Puig, one of the few remaining family-owned perfume and fashion houses, where the second generation invited the third generation to design their own vision for the future of the corporation as far back as 1996. Mariano Puig, a member of the outgoing second generation, cited the close involvement and support of the third generation as key to the success of the transition.

Establish Your Credibility Outside First

The outgoing generation may be a hard act to follow. While it is difficult enough to follow a successful sibling team or partnership, it is even harder to follow a sole owner who, as a successful entrepreneur, is probably talented, driven and quite likely, very charismatic too. You should establish your credibility *before* you join the business. Take time away from the family firm and use those intervening years to acquire qualifications and experience, and to prove yourself in the outside world.

Corporación Puig expects family members to prove their professional abilities outside before joining the business. The family values the new cultural outlook returning members bring and insists that those who aspire to become executives in the family firm have a university degree and spend a minimum of five years working outside the company. Several of the Puig cousins are professionals working in companies like Nestlé and Pepsi. Similarly Paul Lombardi[1], founder of a $550 million grocery and trucking company in California, and his wife Anna, invested heavily in education and training for their children, particularly in areas that would be useful to Lombardi Enterprises. They encouraged their sons to attend the best schools, the family paid for Frank and Stefano to spend a sabbatical year at MIT's prestigious Sloan Fellowship management program in Boston, and the eldest son, Paul Jr. spent two years in a training program with a large supermarket chain in New York.

Time spent outside the family firm can also be used to take stock and decide whether or not to join the business. If you decide to, be sure that you are joining for the right reasons. Don't join because it is your only job offer, because it is your inheritance or because you assume that is what your parents expect you to do. Their expectations may not be what you think. Yes, they want to keep the business in the family, but they also want it to continue and grow. Reflecting a mix of parental love and proprietary concern, a member of the outgoing generation once advised:

> If you are not able to sit in this chair, don't do it – because I don't want to see you fall down.

Surviving the Succession

It has been said that strategy is 5% planning and 95% execution. Much of the success of the handover process will depend on implementation – which in turn depends on anticipation and preparation. To navigate successfully through the handover, anticipate transitional tensions and recognize that the old ways of operating may no longer work. Prepare also for the impact of potential cultural change.

Quite often, a succession will coincide with a transition from one form of family business to another. So, to an already fraught period is added the ambiguity, uncertainty and conflict experienced as the business moves from, for example, a controlling owner to a sibling partnership. There may be an overlap during this period in which both structures coexist uneasily together. Pity the emerging group of sibling partners who may be trying to establish themselves as the future leadership team, even as the ageing entrepreneur tries to continue ruling single-handedly!

At such times, people may begin to personalize their conflicts and blame one another for their difficulties, forgetting that the tensions are caused by an overlap between

[1] Taken from "Succeeding Generations: Realizing the Dream of Families in Business" by Lansberg, I. Note that although the issues for the "Lombardi" family are real, the names and places have been changed at the family's request to protect their anonymity.

different authority structures. By anticipating these latent conflicts, you can help to shift the emphasis from blaming to more constructive problem solving. Furthermore, having post-retirement activities reduces the propensity of the outgoing leader (or leaders) to meddle, so suggest such activities during the succession planning process.

As the family grows, the new generation faces another sort of challenge. In general, the family grows faster than the business and ownership may become increasingly dispersed. The old, informal ways of communicating and involving everyone in the business no longer work. You need to start putting structured systems in place to channel family involvement in the business since, clearly, not all those in future generations can have direct managerial oversight of the company. Further, family members may suffer reduced individual dividend income as the stock is increasingly distributed among many more people – leading some to want to sell their, largely illiquid, stock and leave the business to establish themselves elsewhere. Consider ways of addressing this issue. For example, some families set up a redemption fund to buy out such family members. The Lombardis go further and have set up a venture capital fund for family members who wish to set up their own business.

As you plan a new direction for the firm, anticipate the clash of cultures that might develop from differing appetites for risk. Sometimes, we see a more cautious earlier generation building up significant cash reserves that are then used to propel growth. With succession, a new generation may push for even more aggressive growth strategies that rely on external finance. This is precisely what happened in Corporación Puig where the third generation moved the Group from its previously financially conservative position (no bank debt) into aggressive internationalization by acquisition.

As you face these challenges, look for mentors and role models who have gone this route before you. The outgoing should make excellent mentors to coach the incoming generation for leadership. You can also tap into this resource for guidance on practical issues like tax and the setting up of systems to ensure information flow between the two generations after the succession. Consider mentoring from outgoing members of other family businesses, especially in cases of tense inter-generational family relationships.

Passing the Baton

The last step in succession is the handover of authority from the old to the new generation. Given the uncertainty that accompanies transition, and the ambiguity over authority bred by conflicting authority structures, a formal handover is essential to signal that authority has passed from one generation to the next. Where it is not suggested by the seniors, you ought to push for it. Such an occasion is not only a formal transfer of power, but also an acknowledgement of the contribution of the outgoing generation and a celebration of their life's work and great achievement. Corporación Puig chose to do this in a big, publicly staged event rather than a private ceremony. Mariano Puig explains:

> It [the public event] was really out of respect for them [the third generation] and the other stakeholders in and around our family business. And it left no doubt; it provided clarity…we even decided to invite our regular tax inspector!"

So, surviving succession is not easy, but it is manageable if you plan ahead, involve yourself early in the process, establish an independent track record and anticipate potential problems and prepare for them. As one generation hands over to the next, preferably in a formal and public way, there must be mutual respect. The outgoing generation must let go, accepting and endorsing the incoming as the new leadership of the company.

For your part, you should acknowledge the contribution of the outgoing, and recognize the importance of what they do in handing over their life's work. But balance respect for the older generation with your own independent and fresh perspective on the world. Build your own life and a balanced, independent cocoon as the next generation by developing your own peer networks and benchmarking. Remain forward looking, relying less on historic emotional family relationships and proactively drawing on networks of people who see you for what you are, not what you own.

This article was written by Mope Ogunsulire, Research Associate at IMD based on research carried out at the IMD - Lombard Odier & Cie Family Business Center, contributions from incoming and outgoing family business members and the Leading The Family Business program held at IMD, Lausanne in May 2001.