

DEVELOPING NEXT GENERATION LEADERS

Follow up responses for submitted questions from the June 22, 2016, Insights for Business Owners webcast. Speakers: Peter Begalla, Conference and Education Director, Family Business Magazine, and Charlie Mueller, Northern Trust's Trust and Advisory Services Practice Executive.



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What is your advice for family businesses with siblings that are close in age and managing that dynamic?

Responding specifically to this question depends on a number of additional factors such as the roles of the various siblings, their generational level, etc. Having established family employment policies, a code of conduct, etc. can help in addressing some of the potential conflicts. Further, establishing open communication early on is key. Foster self-awareness of work styles, personality types, value differences, etc. Develop an appreciation of how certain personality traits serve you and how they do not. Understand what sets your siblings off about your own style. Beware of sibling rivalry. And look to create your own style of decision making and leadership – do not replicate mom or dad's style. For example, dad may have been a sole decision maker – siblings have to make more collaborative decisions, which is an entirely different skill set, process and style of communication.

What do you do if you feel the younger generation is leading the planning and implementation process more than the older generation? How do you engage the older generation?

If the younger generation is working on a development plan and succession process, fantastic. The older generation at some point will have to respond. Every generation must define what success means for them.

If there are structural controls that the older generation is reluctant to hand off or transfer control of, the next gen can continue planning anyway, as if the control will be handed over at some point. Many next gens are faced with this problem and a healthy response is "we want to do things differently; open communication, known benchmarks, timelines etc. and we'd love to have the older gen work with us on this, but we're going to move forward with establishing how we want to work in the business, how we want to communicate as a family and establish guidelines (governance) for how to manage the family enterprise."

Clearly, the process works much smoother if all parties are involved. Depending on the particular facts, it might be possible to utilize independent board members (if the company has a board with independent directors) or other trusted advisors to help mediate a path forward between the senior and junior generation.

If family values are changing with the growth and development of the next generation, how do you address that subject? Survey? Family meeting?

Legacy values can be kept alive and relevant for the next gen. Yes, family meetings, crafting values statements, mission / vision statements, surveying or interviewing family members with a structured interview... all of these help clarify how the values are currently lived and how the family aspires to enact such values and principles through the family enterprise.

While surveys and interviews are great tools to obtain information on a particular topic, it sounds like you would like to get to the point of defining a family vision and mission statement that is forward looking. To accomplish that task, the family will ultimately need to come together and work on the development of that vision and mission in a cooperative fashion. That process needs to be informed by the family/business legacy, the viewpoints of the senior generation and the goals/aspirations on the next generation members.

There are common measures of success across all three systems such as reputation and social responsibility. Do you agree?

In the presentation, we talked about measures of success applicable to each of the specific sub-systems. That is not to say that productivity or return on investment, for example, should not be used as a common measure for the family business as a whole. The point is in when these types of measures are used, the interests of all of the different constituents need to be taken into account in a balanced approach.

Certainly, reputation and social responsibility are measures that can and do span across the entire family business system. Many times these type of measures will originate from the family's core values but will resonate across the business and ownership.

What is the advice on how to remove family board members who are only on the board for compensation or unqualified family members because of a family line?

This process can take some time, but it creates a more educated and involved, family shareholder group and family director candidates.

- First step: answer the question, “How can we as a family be the best, most qualified owners of this business?” Create a list of skills, traits, abilities, experiences. All family members participate in this process.
- Second step: determine which skills from the list are needed for various governance roles and positions within the family enterprise. Again, the whole family creates this matrix.
- Third – provide opportunities and resources for family members to gain these experiences and skills.
- Fourth – slowly rotate off family directors who do not meet the qualifications.

You can see that between steps 2 and 3 the unqualified directors will either see their gaps and get the education they need or likely self-select off of the board. If there is resistance along the way, persist in creating a skill matrix and qualifications and provide the opportunities for development.

Best practices would suggest that the board should do an annual self-assessment which would, among other things, look at individual director performance and opportunities for individual and board improvement. Once again, this is an area where independent director input can be impactful. This process may also help foster personal development of family board members or help them come to the conclusion that they might not be the best fit for the position.

One of the many concerns and questions that family business owners face is how do you motivate, how do you prepare the upcoming generation to have interest in their business, when most of them already have everything in life (good education, vacation travels and so on)?

The motivation and preparation of the next generation starts when that group of individuals is relatively young. Engaging them in activities that provide insight into the business and the family heritage helps to forge that early connection and a desire to learn about and possibly join the company one day. Also sharing with them the vision and mission of the family helps to drive engagement and motivation.

Typically, the family is looking for all family members to be productive and responsible members of society as they grow up. Each family defines success differently, but it usually includes a variety of different possible career paths: working for the family business, a career outside the family business, a stay at home care giver, philanthropic initiatives, etc. Usually, there are some family members who decide to give the family business a try (ideally after obtaining appropriate education and working outside of the family business for a period of time). Once a family member (or a non-family member for that matter) joins the family business, it is important that the company provide appropriate on-the-job training and career development opportunities to engage the individual and help them to fully realize their potential.

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