



Succession in the Family Business: The Great Challenge for the Family

Juan Corona

Academic Counselor of the Family Business Institute.
Professor of Applied Economics and Honorary Rector of the Abat Oliba CEU University, Spain

Accepted 2021-05-25

**JEL
CLASSIFICATION**
G3, L2, M1

KEYWORDS
Succession,
Family business,
Next generation,
Harmony

Abstract One of the most significant challenges facing family businesses, and therefore the most studied, is how to successfully manage succession from one generation to the next. The purpose of this article is to allow the vast quantity of evidence and experience to be contextualised, and enable a better understanding of the challenges, the role the new generation plays, the probate process, the preparation of the successor and the importance of family harmony in family business successions. The paper points to the importance to develop new generation leaders as well as the need to carefully consider when to begin with the succession process. It also highlights that preparing the successor is an evolutionary process and that family harmony is critical to succeed in the process.

CÓDIGOS JEL
G3, L2, M1

PALABRAS CLAVE
Sucesión, Empresa
familiar, Próxima
generación,
Armonía

La sucesión en la empresa familiar: el gran reto para la familia

Resumen Uno de los retos más importantes a los que se enfrentan las empresas familiares, y el más estudiado, es cómo gestionar con éxito la sucesión de una generación a la siguiente. El objetivo de este artículo es permitir contextualizar la gran cantidad de evidencia y experiencia, y permitir una mejor comprensión de los desafíos, el papel que juega la nueva generación, el proceso sucesorio, la preparación del sucesor y la importancia de la armonía familiar en la empresa familiar. sucesiones. El artículo revela la importancia de desarrollar a la nueva generación de líderes, así como la necesidad de considerar cuidadosamente cuándo comenzar con el proceso de sucesión. También destaca que preparar al sucesor es un proceso evolutivo y que la armonía familiar es fundamental para tener éxito en el proceso.

<https://doi.org/10.24310/ejfbefb.v11i1.12770>

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**Corresponding author*

E-mail: iefmad@iefamiliar.com

1. Introduction

Succession is undoubtedly the main challenge faced by family businesses. It is, therefore, one of the most studied subjects by researchers (e.g., Benavides-Velasco, Quintana-García, & Guzmán-Parra, 2013; López-Fernández et al., 2017; Xi, Kraus, Filser, & Kellermanns, 2015). Succession entails numerous implications and affects various areas, such as the economic-financial situation, company valuation, ownership distribution, tax contingencies, and so on. However, existing empirical evidence indicates that the primary difficulties pertaining to succession emanate from personal aspects: the selection of the successor or successors, the acceptance by the family, and the precise timing of the succession. Consequently, these are the main challenges faced by family businesses.

Succession usually consists of one or more family members who aim at managing and/or owning a family business. The role played by members of the succeeding generations varies according to their maturity, skills, and interests. The success of the process of succession also depends on the founder's commitment and the way in which this process is carried out.

Thus, the process is a challenge for both incoming and outgoing generations. Although the two issues are obviously closely linked, in this study, we focus especially on the role that subsequent generations can play in achieving a successful succession.

The success and recognition of the new group is a gradual process and is achieved when, through their actions, they earn the respect of the members of the organisation and the rest of the family members. Knowing about the process of choosing the new successor or successors and whether the election was carried out in a transparent manner is vital.

The incoming generation must be adept with all necessary aspects of managing a company. When considering the succession stage, businessmen ask themselves: Who is the right person; why is he/she really qualified to take over the position? The very nature of the process of incorporating the new generation requires it to be planned and executed delicately and prudently.

Over the last 25 years, my professional tenure at the *Instituto de la Empresa Familiar* has allowed me to gain an in-depth knowledge of many succession processes in leading family businesses, both in Spain and abroad. The following pages contain a summary of my experience regarding succession processes and can serve as a basis for analysing these issues.

2. Role of New Generations in the Continuity of Family Businesses

In every family business, there always comes a time when it is necessary to count on the new generation. To ensure that their role in the continuity of the company is positive, it is essential to train future managers. Therefore, from a very early age, it is necessary to instil in them a sense of responsibility towards the property, what constitutes appropriate behaviour as company managers, and the definition of family and business values that must be preserved and passed on.

Generational change means an increase in the degree of complexity of the family business not only because of the increase in the number of people who make ownership and management-related decisions, but also because a series of important differences surface: different objectives, different criteria and vital interests, alternative styles of managing the company, and so on.

If we use as an analytical basis the well-known theory of the three circles (Company, Property, and Family; Tagiuri and Davis, 1996), it is clear that the training work with the future successors must affect each and every one of the areas. Following Professor Jon Martinez (2010), it is possible to assign a specific concept to each of the circles:

- Company: 'Business leaders.'
- Property: 'Guardians of heritage.'
- Family: 'Custodians of values.'

The objective is to ensure that the new generation can 'unfold' and act in one area or another as required by the needs.

Developing these issues further can indicate the importance of training business leaders for the future. To achieve this, and apart from the specific training that may be offered to successors, it is essential to respect a number of basic principles.

First, overprotection of children must be avoided, as it hinders their development and slows down their ability to face the challenges and difficulties that they will invariably encounter in course of their business life.

On the other hand, we must resist a very human temptation: cloning. The ideal leader in the foundational stage of a company does not necessarily resemble the ideal leader in the following stages of the company. The profile of a company's leader has to adapt to the fluctuations in its internal and external environments.

Third, no family member should be forced to take over the leadership of the company. On the one hand, since it is impossible to make a leader out of a person who lacks the appropriate skills.

On the other hand, the decision must be voluntary, otherwise the essential vocational factor to exercise such a role would be lost.

Finally, it must be taken into account that a leader creates a work team around him composed of people he trusts, who recognise his role as the driving force and reference point of the company. Consequently, it is also necessary to foresee the succession process of his main collaborators when there is a change in leadership.

In order for the new leader to continue the process of the previous generation, he or she must be recognised as such, not only by the family, but also by the professionals working in the company. Although, obviously, this acceptance will depend on their performance as the head of the company, they will not be accepted without initial agreement about their suitability to perform this function. To achieve this, it is advisable that his or her appointment should not come as a surprise. The alternative must clearly be well-known in advance.

To help identify the person or persons who can efficiently assume the role of the new business leader, there are a series of personal characteristics needed in an ideal successor. Strategic vision, ability to anticipate the future, and ability to involve others in strategic planning comprise the sine qua non of a good leader. However, even these are not enough since these must be accompanied by an adequate technical and academic training, relevant business experience, and good knowledge about the company. Last but not least, there must be a desire and willingness on the part of the person to lead the family business.

3. The Probate Process: How It Affects the Successor

Succession should not be initiated when the founder feels the need and the will to retire. Normally, that is what usually happens. When the founder is in the last stage of life, their concerns and worries vary. At the beginning of the business project, the founder invests all his time and effort into growing and developing the company. When his business is already consolidated, which usually happens when the founder is already old, tired, and when his worries are different from when he began. The entrepreneur then begins to worry about his *economic stability*. The founder must become aware of the need to leave the company in the hands of his children, passing on all his experience and knowledge of the business to them. Their training as future managers, owners and/or shareholders should be planned step by step with enough time before the actual retirement. The success of this process depends on the com-

mitment and acceptance of those involved. Likewise, both the founder and his family have to understand that their future and that of the company will depend on how successful this process is because a wrong management in this matter can spell doom for the company. To avoid future conflicts, the role of the leaving members must be clearly demarcated in advance.

The decision to begin the succession process is not an easy task. None of the parties wants to initiate it, neither the children, nor the businessman, nor his wife, nor the managers and employees of the company. They all have different discourses.

The reasons are many and varied and also depend on the character of the entrepreneur. There are entrepreneurs who are afraid of the loss of power both in the company and in the family, they worry over the fate of the company for which they sacrificed so much, their economic stability, and how to cope when they no longer are needed on a daily basis, how to fill the void of the company around which their entire life revolved. Consequently, they see their end much more closely being away from the company.

The businessman's wife is also worried about the change. She has always been the arbiter of the family, the great mediator in the conflicts between father and children and believes that beginning the succession process will create a climate of tension within the family. She also sees the change as a loss of power and social status. On the other hand, the children do not dare to ask the father to leave and make way for them, they see it as a betrayal to whom they owe everything. However, on the other hand, they feel that this same person is a hindrance to developing their project.

Other actors include the managers, some of whom may or may not be members of the family, but either way, they would prefer that this succession did not take place. Up to this point they had a say, they decided on important matters like their own remuneration, they had developed a friendly relationship with the founder, they see their peace of mind and stability threatened, and probably also the arrival of their own succession.

Another issue to deal with is what happens to family members who are not included in the business project? How are they compensated? What should be done so that no one feels disadvantaged?

There are heirs who will retain the company, but there are others who will remain on the sidelines. Both must perceive the distribution as fair. The company must be valued very well and compensated in a fair way, but it is not an easy task because perhaps when the valuation was made, it was fair, but companies can grow or disappear, and comparisons *are always odious*.

Keeping the shares within the family as far as possible while respecting the needs of each shareholder is crucial. We have often encountered very different views depending on whether some were working within the company. Those directly involved in the company see their needs covered i.e., having economic retribution for their work, they prefer to reinvest the profits, while shareholders who do not work within the company wish the dividends to be distributed. It is very difficult but necessary to keep all shareholders satisfied for the company's survival. It is also very convenient to establish how these shares should be transmitted within the family protocol.

In succession, as in other areas, there is gender discrimination. However, it is important that when faced with an important decision, such as 'who should lead the company,' such prejudices should be set aside and the individual should be valued regardless of their gender.

Within the same gender, there are other problems as well, such as jealousy, rivalries, and so on. It is important that the successors learn not to compete and understand that they can be complementary. It is important that they begin to value each other as a team, that they all row in the same direction, forgetting rivalries they may have nurtured since childhood, fighting for their father's love.

The founder or entrepreneur must facilitate communication with their children, this communication must be fluid and regular from childhood. The relationship between parent and child is fundamental, both must respect each other, listen to each other and think that, although they may have different styles, they can take advantage of the accumulated experience of the outgoing generation on the one hand, and on the other hand, the energies and vitality of the incoming generation. The former parent-child, adult-child relationship must transform into a relationship between adults.

The maturity and personal development of an individual depends mainly on his family because these are nurtured and nourished within the family and more specifically, through the relationship with their parents. If the parents are emotionally-balanced, their children will gain maturity and have a high self-esteem. Parents should support their children and give them as much love as possible so that their individualization process is good.

The founder in the first generation, and from the second generation onwards, the person who leads the company, must clearly know the company's competitive advantages as well as a clear idea of where he/she wants to see the company in the future. Facilitating a climate of trust

based on communication and sincerity is also important.

Quality communication and listening to others benefits the achievement of process goals and a successful outcome. In succession, the leader who guides the transition plays a key role. In the first generation, leadership is clearly recognised in the person who created the company, who becomes both the family and business leader. From the next generation onwards, as the family grows and ownership is divided, leadership becomes less clear. The leader must have the family's and employees' support, adjust to the strategic needs, and structure the continuity of the company's plans.

The big question here is: how does this whole process affect the successor? Unfortunately, this question is much less studied because specialists usually focus on the figure of the predecessor and the relationships he has with his successors. Most successors have a somewhat blurred picture of the family business for a long time. Their perception of it is wrong because they do not know the family business well. This lack of knowledge is often the logical consequence of a faulty communication policy.

If we assume the emotional component necessary for the leadership of the family business, it is easy to appreciate that in order to achieve it, it is necessary, as a prerequisite, to have good knowledge about it. It is difficult to be enthusiastic about something you do not know well. Therefore, the family business faces a double challenge. On the one hand, the generation in charge must be able to make the company known to their successors, and on the other hand, they must be able to ask the right questions that will enable them to acquire good knowledge about their business' reality. Both these must be coordinated, which implies an important effort on the part of all the members of the family.

Incentives must be created for potential successors to get to know the family and the family business better, a function that must logically fall on to the predecessor. That is why it is extremely important to have a dialogue within the family. It is necessary to communicate the main issues that affect the company and not only the problems and difficulties that may arise.

For dialogue to be effective, it is necessary to take into account the age and level of education of the listeners, and at the same time, to be able to listen to their opinions. Communicating implies sharing and having sufficient capacity to listen and understand so that possible conflicts can be foreseen and their growth limited.

It is important that this process is accompanied by training, will, and development of the potential successor's self-esteem, so that he or she can

make a free and conscious choice about his or her future role in the company.

4. The Preparation of Successors: An Evolutionary Process

According to Professor Gallo (1995, p. 138): 'Training to be a member of top management has to cover three basic aspects: understanding the business in which the company is involved and how it operates, knowing how to lead, and being personally committed to the whole organisation.' In some families, the succession process runs smoothly and with little tension, although this is unfortunately not common. The planning and orderly development of a succession process is something that usually only occurs in companies that have already undergone several succession processes, or in companies that are particularly aware of this.

In most family businesses, the transfer of ownership and governance of the company often generates multiple difficulties, mainly due to the belief that the process will develop naturally by itself. This approach is a big mistake, as succession processes require active, precise, and dedicated management to achieve success.

Focusing on the new generations, which are our object of interest in this work, it is clear that the preparation of the next generation is an essential element to guarantee succession success. However, we cannot forget that, although the preparation of the new generation is one of the best investments that the family and the company can make for the future, it requires significant efforts in terms of reflection and dedication.

The governance and management of a company is a task that is becoming increasingly complex over time. Hence, a broad and updated training is essential to ensure the competence of future entrepreneurs. In this sense, there are many variables to consider, which advises an adequate planning of the training processes for the following generations.

Some of them are of a strictly technical nature, while others refer to personal and family values. Following Professors Casillas, Díaz and Vázquez (2005), a series of basic aspects to be taken into consideration can be summarised.

1. Formal education. Although a person's ability to understand and join the company is not guaranteed, given the technical complexity of the business environment and the speed at which change and innovation occur, it is essential today.
2. Business experience. In order for academic knowledge to be translated into efficient management and governance of the compa-

ny, hard work and experience are essential to get the most out of the training received. Additionally, and if circumstances permit, it is advisable to have a period of work outside the company itself. This provides people with a greater capacity to adapt and ensures that the return to the family business is based on their own merits and not merely because they are family.

3. Knowledge of the family business. It requires specific planning and should not be left to chance. The learning plan within the company must clearly determine the position or level for which the family member is being prepared and what is expected of him/her at the end of the process.
4. Place each person at the right level in the organisation. Although an old business tradition advises starting from the bottom, it makes no sense to consider it if we are talking about someone with a recognised training and some business experience. It would also be a mistake to place the person at an excessively high level within the company. It is simply a matter of applying market principles and placing every individual where he or she can make the most of his or her capabilities and continue to learn for the future.
5. Direct supervision and guidance. Despite the training received and previous business experience, no one is exempt from making mistakes or not properly exploiting their potential when entering their family business. For this reason, it is important that the generation that governs the company designates some person or persons to supervise, instruct, and correct the new generations in the development of their functions.
6. Evaluation based on results. The fact that a member of the new generation starts working in the company does not have to imply the irreversibility of his or her position. In the first stage, the job should be seen as a test or training course. Consequently, objectives to be achieved and performance indicators to be evaluated on a regular basis should be set.
7. Responsibility. The entrepreneur who places his trust in and delegates some functions to one of his successors must take personal responsibility for the learning of the person chosen and readily modify his decisions if necessary.
8. Delegation of responsibilities and trust. As sooner or later the entrepreneur will have to hand over the baton to his successor or successors, it is good to take advantage of the incorporation of new generations into the family business to turn the succession into a gradual process. This idea commonly known as

'sharing the baton of command.' It involves delegation of responsibilities by the entrepreneur so that the future successor gradually adapts to the challenges and demands of assuming business leadership.

9. Enrichment and strengthening of the successor. One of the personal problems that the successor of a family business may have is the lack of self-confidence because he/she considers that his/her main merit resides in the mere fact of belonging to the family. For this reason, it is healthy to venture into other fields and not only work in a different organisation. Considering the possibility of achieving improvements within their own organisation or even living abroad can also help. The aim is to strengthen the confidence and security of the successor for his or her future incorporation into the company.

5. Towards the Institutionalisation of Family Harmony as a Key to Succession

Harmony is defined as the relationship between people whose wills are in agreement and who get along well with each other without quarrelling or arguing. It is evident that family harmony should be a priority for any family because no description can be more positive for a person than the recognition that perfect harmony reigns in his family.

Additionally, family harmony has very relevant implications strictly in the business field. Experience shows us that a good part of the family businesses that disappeared had suffered problems related to the discord or opposition of two or more people in the family with respect to issues related to the business, which is precisely what 'disharmony' is.

Human beings are different, we think in different ways and have very different emotions and perceptions, regardless of our belonging to the same family. We all express ourselves and convey our ideas and feelings in a very personal way, communicating and behaving differently.

This undeniable fact is more complex, if possible, in the bosom of a family since the degree of intensity in relationships and personal emotions are much stronger than in any other case. For this reason, it is logical that, with the passage of time, family harmony runs the risk of being broken by the presence of conflicts or discrepancies between its different components. The existence of such conflicts should not worry us because it is absolutely natural and consubstantial to human beings. What we should be concerned about is our ability to manage such conflicts in a positive way, which can allow us not only to neutralise the negative

impact of such conflicts, but also to reinforce family cohesion.

From a rational point of view, it makes no sense to worry about something inevitable, just as it also makes no sense not to establish adequate strategies to optimise its treatment.

To manage conflicts adequately requires, apart from knowing their inevitability, to anticipate them and plan their handling adequately. To do this, we must not only carry out an exercise of temporary anticipation, but we must also guarantee the existence of an environment or framework of family action that helps to preserve harmony.

There are no magic recipes to guarantee family harmony, but experience shows us that the existence of an open and fluid communication between all the components of the family greatly facilitates the existence of a relational model that is very suitable for the adequate management of conflicts and the promotion of a harmonious environment in the family.

There are instruments specially designed to ensure adequate communication within the family, some of them legal or documentary, such as the Family Protocol, others based on the governing bodies, such as the creation of the Family Council and the Family Assembly. However, all of them require the establishment of a culture of communication that, through appropriate channels and procedures, allows these instruments to be fully operational.

From the point of view of the company, the need for family harmony is emphasised because its impact on business results has been amply proven. In fact, we can speak of a feedback process, since a harmonious functioning of the family generally results in a good functioning of the company and, in turn, the latter greatly facilitates the existence of a cooperative environment within the family.

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