

# Embracing Change and Honoring the Past: The Challenge of Family Business

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## **Change is the only constant.**

While we all understand that change is part of the natural order of things, few of us always embrace change — in particular significant change that we know, or fear, will have a big impact on our lives. It is human nature to resist change because it represents the unknown and the status quo is usually comfortable enough.

Few changes happen in a vacuum. Imagine you are a successful next-generation family member with great professional success in a related industry. During a recent visit at your family's business, the senior leadership team offers you a position that would eventually lead to becoming the CEO. While exciting, it is complicated.

This opportunity would require your family to move from a big city (where your husband also has a career) to a small town. This change not only affects you, but also your spouse, your kids, your current neighbors, your future neighbors, your new team at work, others who were candidates for your position, etc. To varying degrees, all those stakeholders will be impacted by your change. The way those stakeholders more directly affected by the change respond (such as your family and team) may impact the success of this new opportunity for you.

This brings to mind two important questions:

1. How do you best prepare affected stakeholders

(who may or may not be decision makers about this change) for a planned new reality that will have a meaningful impact on them?

2. Once change has happened, how do you get affected stakeholders, in all generations, comfortable and aligned around the new direction this change represents?

The extensive overlaps of systems and stakeholders in family-owned enterprises suggests these challenges may be both harder and perhaps more important than in other settings.

## **Consider How a Change May Affect the Broader System**

As decision makers explore options or mobilize to respond to a crisis, it can be hard for them to consider the full breadth of impacts a given change may have. They are often pressured to focus on granular issues (such as skills of candidate A vs. B to take over a position vacancy) on which the change quality may be immediately judged. Or the attention is placed executing numerous details of a complex change without any mistakes. (Are all the trusts we have set up to transition ownership buttoned up and the legal documents drafted?)

Considering the impact of a given change on the broader system requires deliberate intention and

perhaps input from a range of stakeholders which can take time and slow down the process. While it may be a challenge to consider and address all possible concerns, pushing a change through without even acknowledging the impact on other stakeholders may lead to a very poor outcome.

To illustrate in a family business context, let's examine a few examples of significant change and consider possible impacts on its stakeholders.

### **The business moves to a non-family CEO for the first time.**

This is typically a change that is made with some planning and will impact stakeholders in the system in different ways. A few perspectives we frequently encounter include:

a) The board of directors (typically key decision makers around this change) will need to adjust to a CEO who may have a different style of leadership and communication with the board. The board may be expected to engage in a different type of oversight with a non-family CEO than they had with a business leader who was also one of the owners.

b) Members of the senior leadership team will also have to adjust to a new style of leadership and may experience anxiety around their own future as new CEOs often will want to bring in at least a few key leaders they have worked with in the past. In addition, some senior leaders may have been in contention for the top job and did not get selected. As a result, their bruised ego may impact how long it takes them to accept the new CEO.

c) Shareholders who feel less connected due to a perceived reduction in family's role may be less trusting of results that come from management and put new demands for accountability on the board. If their concerns about the shifting role of the family and ownership group are not well addressed, individuals may want to sell their shares. This could affect the cash position of the enterprise and limit options for the new CEO.

### **The company decides to sell a core piece of business.**

When a company divests itself of a core business unit, many stakeholders' lives may be substantially disrupted. The most obvious are the associates who may lose

their job as a result. However, other stakeholders may experience ripple effects of this change:

a) The board of directors (likely central to this decision) may feel relief that this complex transaction is behind them or anxiety that they made the right choice to provide the liquidity desired by some. They may also be experiencing pressure from shareholders who challenge this decision or question how the company ended up in a position where this decision was necessary.

b) The family branch that has traditionally been most involved in that operation may feel their value as leaders has been questioned and worry that there is no clear role for them or their branch elsewhere in the enterprise. In some cases, this may lead some to want to exit ownership.

c) All associates of the enterprise may be surprised by this move which could lead to wondering about the family's long-term engagement with the business.

### **Next generation steps into direct ownership.**

As the next generation of family shareholders become empowered as owners, they may experience both pleasure at having this authority in the system as well as anxiety around shouldering the additional responsibilities. Other impacted stakeholders will include:

a) The board of directors may experience significant turnover as some prior owners might leave the board to allow new ones to join. In addition, some new directors may want a voice in selecting independent directors with whom they feel more generationally aligned. This could lead to a significant change in the age profile of the board.

b) Senior-generation spouses may bristle that their children have authority in the system that is not open to them. This disparity of power in the system can be an uncomfortable adjustment. Further, if the financial security of the senior generation remains dependent on the business, anxiety about the younger generation's judgment may exacerbate this stress.

c) Senior non-family executives may worry about the vision and capabilities of this new generation of owners and may also worry that these younger owners will not value them as much as the senior generation (with whom they grew up in the business).

## Variables that May Play a Role

### **How did this change emerge?**

Changes that are planned are usually easier to manage than those forced on us due to outside circumstances. One key aspect to communicate to stakeholders is the reasoning for the change. Sometimes decision makers assume everyone knows the “why” of a change, but that is often not the case. Helping all affected stakeholders better understand how the need for the change emerged provides important context that can improve buy-in.

### **Who (or what group) are the decision makers on this change?**

When you have well-established forums for decision-making (e.g., board as the forum for key decisions about the business), stakeholders should have a better understanding of why some individuals were involved in a decision and others were not. In the absence of these governance structures, it is important to consider and communicate who should be involved in a particular change decision and why.

Some changes are due to personal decisions, yet can have a big impact on the system. If the patriarch chooses to get remarried, the decision is clearly not up to anyone other than the couple. Yet many other stakeholders may experience significant effects due to this change.

### **Who (or what other groups) have a voice about changes like this?**

In a family business, there may be decisions on which a number of stakeholders have a voice — without having a vote. For example, family members may be polled about making the change to a non-family CEO without being empowered to select the CEO. However, some big decisions cannot be widely shared such as selling a business unit that may be highly confidential. This can create tension when something so substantial feels like it was “sprung on” the stakeholders if they have not been educated about situations that do not lend themselves to wider stakeholder input.

### **How is input solicited (if at all) and details shared on this matter?**

Do you have an established process or protocol for sharing important changes with stakeholders and getting their input when needed? How does communication

flow between management and owners, or between the owners and the board? Clarity on how to share communication helps all stakeholders feel there is a channel for their voice.

Many families will leverage the family council for outreach to family stakeholders. Some family council chairs sit in board meetings or meet with the board chair for updates from the business. Reliable communication flow with adequate transparency typically will help stakeholders better tolerate situations where their input could not be directly solicited, or updates on changes had to be withheld due to confidentiality.

### **Are there processes to “on-board” change with stakeholders?**

When stakeholders have been consulted on an impending change and kept current on its decision-making process, they tend to be more comfortable with the change once it is upon them because they had time to acclimate. However, when a change is more sudden or not all stakeholders can be practically reached, there may be value in rolling out the change in a way to give all a chance to ask questions, be curious and generally get comfortable.

For instance, there is great value in a new CEO spending a few evenings out with all the family shareholders so they get to know him or her as a person. Likewise that CEO may be wise to get out in the field and tour various facilities to meet and greet employees.

## Advice for Effective Change

1. As much as possible, think about change like chess. You may have to consider the ramifications of a given change one or two moves (or generations) out.
2. While none of us has a crystal ball to imagine all possible consequences, try to consider the unintended consequences of a particular change. For example, if you choose to transition ownership of the business only to family who work in the business, you may create an incentive to work there that is not built on true commitment to that career. (Policies of this type may lead to poor outcomes for the business and that family member.) Or you may have a future heir who is

greatly suited for the business but whose parent never worked in the company, so he or she has no ownership interest.

3. Make a habit of thinking about all the stakeholders who may be affected by a change and consider:
  - How do you want to communicate the message to help them plan for this change?
  - What is the extent to which they should play a role in planning for this change?
  - How do you acclimate them to the change in order to maximize their buy-in?

## In Summary

Do not forget to recognize and celebrate the ending that is leading to the change. Retirement celebrations are a great example of recognizing and honoring the past before we transition into the new. Acknowledging and marking the transition from what was to what will be may help many stakeholders get closure on the past which may help them to more fully support the future and related changes.

Always be mindful of the amount of change going on in the system and determine if there are some changes that warrant delaying or slowing to enable stakeholders to effectively and productively digest the changes already underway.

Never forget that change is hard — even intentional, joyful, planned change.



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