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One way to see if the future works

Moving to a new form of leadership in the next generation? You can map your way by visiting other families who are already there.

By Ivan Lansberg

As we better understand family companies that manage to stay in business through generations, it becomes clear that many share one outstanding quality: They tend to be run by families that place a high value on learning.

The notion of the learning organization, the company that is constantly scanning the environment and adapting to new ideas and challenges from competitors, is familiar through the work of Peter Senge and others. The idea of the "learning family" is a parallel principle. It is particularly important for family businesses that are planning to adopt a different leadership and ownership structure in the next generation.

Numerous companies today are moving from a single controlling owner in the first generation to a sibling partnership in the second. The management style of the founding owner usually has profoundly shaped the organizational culture. Indeed, the style and skills of the single owner were probably responsible for much of the company's success. But what may have worked wonders for him or her can become a recipe for disaster in the case of equal sibling partners. The sibling who attempts to make decisions single-handedly, without consulting the others, is almost certain to run into flak from his or her partners. Similarly, the experiences of sibling partners are seldom applicable to the complexities of running a third-generation company that consists of cousin shareholders.

Family businesses contemplating moving to a new form of leadership in the next generation are entering a *terra incognita*. They have no map for the challenges that lay ahead. In fact, these family companies face the formidable task of trying to unlearn the lessons from past experience and replace them with the new habits and skills needed to succeed in the new working environment.

What then can business owners do to enhance their learning? How can they anticipate the challenges of moving from one form of leadership to an entirely different form?

One of the newest and best approaches is “benchmarking” with other business families that have already lived through and succeeded at a similar transition. The concept of benchmarking has become popular through the world of total quality management; it involves visiting other companies in an effort to learn innovative ways— best practices— for dealing with recurring organizational problems and issues.

Many family companies have already found such visits to be an extremely valuable part of their continuity planning. Visiting with other families, they have found, not only enables them to take stock of how far they have come in their own planning and what remains to be done, but also helps them appreciate that certain obstacles are generic to the transition and are not insurmountable.

Some families have such excessively high standards that they are overly critical of themselves if they are not managing the succession process perfectly—if, for example, they experience an outbreak of family conflict that they cannot handle. For those families who hold themselves to impossible standards, benchmarking encourages a more relaxed view of the continuity process. Other families are not hard enough on themselves. They don’t, for example, emphasize to their children the importance of getting the right education and experience if they expect to run the family business. For them, visiting with other business families provides an opportunity to see the dedication and hard work that is necessary to succeed at a new form of leadership.

It is important to select carefully the company you will visit. Many owners choose to benchmark with the families they know best, rather than considering what businesses have the most to teach them. While the quality of the relationship between the leaders of the companies is important, owners should try to benchmark with companies that are at a later stage in their evolution. They are likely to learn more from a family whose leaders are 10 to 15 years older and have been through at least one generational transition. Obviously, for example, a family that is considering passing stock to a group of siblings would want to consult with a family that has had a sibling partnership in operation for some time. The point is to use benchmarking to anticipate the kinds of issues that are likely to affect the system in the future.

If properly managed, the visit can be beneficial to the host family as well. As one cousin shareholder explained: “We have been in the cousin stage for well over 50 years and were recently approached by a group of sibling partners who were interested in benchmarking. At first we thought we had little to gain, but we agreed to go ahead out of ‘civic generosity.’ As things turned out, I think we learned as much from the visit as they did. For one thing, talking with them helped us appreciate how far we had come [in implementing our new system]. The very process of explaining to others how our system functions raised our awareness of how things are working and what may still need to be done.

“We also gained a deeper understanding of how many of our current struggles are rooted in unresolved issues from the sibling stage of our evolution. For example, we realized that it’s hardly coincidental that the two branches of our family that have had the most difficulties are descendants of two siblings in the original group that were locked in an intense rivalry."

Of course, families vary in candor and the extent to which they are willing to share experiences with others. Trust must be built between the two parties before a free exchange of views can take place. When you arrange a visit, make clear ahead of time that you will respect the confidentiality of whatever you learn about the host company. It's also a good idea to ask the host family what they might be interested in learning from you.

You should obviously choose carefully who will represent the family. A small benchmarking committee, composed of no more than four of the most thoughtful family members, should spearhead the process. In addition to a family shareholder active in management, it might include another who is not in management and a member of the junior generation who is not yet a shareholder. By the same token, it is helpful if the host creates a similar committee for the visit.

To make the most of benchmarking, companies should not lose sight of the overall learning objectives. The visits are not an end in themselves. You have to do the follow-up work to synthesize the lessons, report on them to a governance body such as the family council, and think through an action plan for implementing what has been learned.

Learning families are still a relatively rare breed. Paradoxically, many of the factors that contributed to the success of a family business at one stage can conspire to thwart a family's willingness to learn at another. Success often leads to a sense of specialness and invulnerability that can subsequently compromise a system's ability to adapt to changing circumstances.

Many family business owners seem content to rely on their own experience as the primary guide to learning. Experience, a learned business leader once said, is what we have when we get what we never expected. While it can be a powerful teacher, however, experience can be a very costly path to learning. This is especially true when the gap between what a family gets in a leadership transition turns out to be so different from what it expects as to threaten the organization's very survival.

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