

A photograph of a lighthouse with a black base, a red middle section, and a white top section, situated on a rocky pier overlooking the ocean under a blue sky with scattered clouds.

Viewpoint

Family business

Succession is often a misunderstood issue within family businesses.

Understanding Succession

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Challenge area

Succession is often a misunderstood issue within family businesses. To aid better understanding, BDO Kendalls asked academic family business specialist Professor Ken Moores from the Australian Centre for Family Business at Bond University to consider this issue for us.

New Perspectives

Charles is in his late fifties and is keen to succeed to the leadership of his family's business. Educated overseas he spent a brief period working outside the business but most of his adult life has been devoted to the family's 'ceremonial tourism' business. This multi-generation business has accumulated substantial wealth through 'takeovers', strategic marriages, fortuitous tax breaks, and generous government funding for the quasi public service role the family performs. This wealth is largely invested in land holdings, significant properties, and iconic jewellery.

His mother and father both continue in the business, as do his sister and two younger brothers in lesser roles. There does not appear to be any sibling rivalry in the succession stakes as traditionally the eldest assumes the leadership. Charles' two sons from his first marriage are beginning to be active in minor capacities in the business and there has been talk that the eldest son might ultimately assume leadership thereby skipping a generation. Both of Charles' marriages have been seen by some to impede his succession aspirations.

While succession is not an issue confined to family firms, it is arguably more difficult in these businesses.

The fundamental difficulty for Charles is that the incumbent leader is a monarch: Elizabeth, Queen of England (and Australia). However, Charles is not the only aspiring family business leader confronted by an incumbent monarch. The behaviour of incumbent leaders, especially in founder-led family firms, is often characterised as acting like a monarch. Monarchs are very reluctant to let go because they often view their business as an extension of themselves and have failed to cultivate any interests outside the business. They are typically only replaced through death or palace revolts.

Equally troublesome are those seen as generals who only leave when forced and vow to return. Successors need to be wary of the continued presence of generals 'at the barracks' as the maintenance of their offices and car parks, while they do not hold designated roles, allows them to frequently 'talk to the troops'.

Less frequently observed, but which lead to fewer acrimonious successions, are incumbents characterized as governors or ambassadors. Both serve designated terms as family business leaders in stewardship roles. Ambassadors in particular are subsequently keen to continue to represent the family business in other capacities. These are typically observable in families that have had prior experience of succession.

While succession is not an issue confined to family firms, it is arguably more difficult in these businesses. The incumbent and potential successor(s) are often related and frequently there is a smaller pool of talent on which to draw. This can complicate emotional factors in the incumbent-successor relationship, and the complex social ties within the family. The largely anecdotal observations of family business succession still ring true to some extent but fortunately we have now accumulated more systematic knowledge of the family business succession process.

The way forward

Emerging consensus

After 30 years of investigation, there is clearly an emerging consensus on some of the elements that are expected to be important to successful family business successions. Apart from the recognition that successful transitions must be seen as a process and not an event there is a real need to focus on more than just the incumbent and the successor.

A more comprehensive integrative approach to understanding family business succession involves first understanding the stages of the succession process:

- Establishing the ground rules;
- Nurturing/developing potential successors;
- Selection; and
- Final hand-off to chosen successor.



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This process will occur within a context that will influence how the process is undertaken. The elements of context that have been identified are non-family, the business itself, and family. Specifically:

Non-family context:

The non-family context includes the industry and competitive environment, which constrains and drives its strategy, organisation and governance policies.

Business context:

Family business itself impacts the succession process by virtue of its strategy and the extent to which it requires a particular kind of executive to implement it. The ownership structure and board composition too will determine who might be acceptable as suitable successor. Within the business context are the primary actors – incumbent CEO and the set of potential successors.

Family context:

Family context is embedded in the social context. Social norms, laws, and values have a profound influence on the relationships of the family. Family context includes the dynamics of the family – the relationships, trust, respect, and roles of its membership, and governance vehicles such as family council/meetings.

Conclusion

It was suggested that the three most important problems facing family firms are succession, succession and succession. While this clearly overlooks other issues that confront family firms there can be no denying the fact that much of the discussion about family firms has been centered on succession and conflicts that emerge from it. Over the past 30 years, evidence from academic and professional literature has focused on:

- the characteristics of successor;
- the characteristics of incumbent;
- nurturing/developing of successor(s);
- family relationships;
- hand-off of power;
- shared vision;
- succession planning; and
- the presence of board of directors with strong outsiders on it.

Integrating these into a comprehensive view of how to understand the family business succession process through ground rules, selection, nurturing, and use of family councils is the key to successful successions.



References:

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About the author

Professor Moores pioneered research and recognition of family business in Australia and established the Australian Centre for Family Business in 1994 within the Faculty of Business at Bond University.

Professor Moores served as Vice-Chancellor and President of Bond University (1997-2003) and he has achieved international recognition for his work with family businesses.

Professor Moores continues to serve this community as a regular speaker at family business conferences, an adviser to family firms, a judge of the annual Family Business Awards and a member of the board of Family Business Australia (FBA) Ltd.

His 2003 book based on involvement with Australia's family business community (co-authored with Mary Barrett), *Learning Family Business: Paradoxes and Pathways*, has been widely acclaimed for its insightful observations about family businesses.

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