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## How to Develop the Next Owner of Your Business By Michael L. Stern, PhD

The crisis of succession: When is the time to start training the next owner of your family-owned business?

The “House of Pritzker”, owners of the Hyatt Hotels and one of America’s richest families, has recently found undesired cover page notoriety as they face a crisis in succession. The erupting dispute over control of the family businesses, which include Hyatt Hotels, was described in Business Week as involving “issues and emotions that transcend business”. The difficulties that are causing the breakup of this \$15 billion empire are the same issues found in other family owned businesses facing the challenges of succession. Of all the challenges family business face, succession is one of the most critical to the continued success of the business, and, in many cases, the family.

In the midst of these uncertain political and economic times, we are entering an unprecedented level of transition in family owned businesses. A recent survey by the Raymond Institute showed 39% of all family owned businesses will change leadership within the next 5 years. However, 42% of these businesses have not yet chosen a successor. The looming succession crisis is even more acute for those businesses facing succession in the next five years. Over half (52%) of businesses with owners over 61 have not identified a successor. The Raymond Institute report concludes: “Such lack of planning sets the stage for stressful transitions that may divert precious resources needed to run the business effectively”.

In successful business transitions to multiple successor generations, the assets are not the most vital legacy. The family values must also be communicated and handed on to successors. Without the structure of the values, the assets can become a source of conflict rather than unity. The transfer of values is an active process. Even such values as the “written in stone” 10 commandments must be actively reinterpreted and applied by successive generations. The Pritzker family had a family value, the “Family System”, described as “one for all and all for one”. In the Business Week analysis, it appeared that this value was articulated by the senior generation, but in just a few years after the death of the patriarch, conflicts are tearing apart the family.

How do families successfully “hand down” the family values? The process often begins around the dinner table with young family members. What begins in the family dining room has to be continued into the board room. SC Johnson, an \$8 billion family owned company, is successfully in the hands of the fifth generation.

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The transition to these 4 siblings as owners and managers was begun early on by their father. A key strategy was to create a large degree of transparency in the business. Like other businesses who have mastered succession, a family council was established. Serving an educational and leadership function, the family council held regular meetings of all family members to deal with family and business matters. It also served as an important forum for succession planning. The meetings and openness preceded the transitions.

The family council is a vital mechanism in large families also. The Nash Engineering Company, a Connecticut based manufacturer who successfully transitioned into the 4<sup>th</sup> generation of family ownership, utilized a family council. Faced with a once in a lifetime opportunity to acquire a large competitor, the consensus of the 100 share holders was needed. Fortunately, the forward thinking Chairman of the Board had years earlier established a Family Council. This educational and communication forum included 3<sup>rd</sup>, 4<sup>th</sup>, and 5<sup>th</sup> generation family members. The foundation had been established, reacquainting many family members with the business. The deliberations which allowed Nash Engineering to go forward with the acquisition would not have been possible without the years of work done in the Family Council.

Contrast these two families with the approach shown in the reports on the Pritzkers. When the Pritzker family members wanted to find out about business operations, they made inquiries which were backed up by lawyers and resisted by those in charge. The conflict even included a highly publicized \$6 billion lawsuit by one child against her father for “looting” her trust. The opportunity for family harmony had clearly passed.

Once a family has established a means of sharing values and dealing with family and business matters, there is still the task of training, mentoring, and selecting successors. The 4 successors heading up the S.C. Johnson companies describe their father as having been “a coach, protector, and friend to each of us... (who) guided us with wise counsel but also encouraged us to follow our hearts”. This task is also one best begun early and openly. What are the skills and qualities needed in the next generation to head the business? What are the passions of the children? What resources are there to help them learn the skills needed? As many of us quickly learn as parents, we are not always the best source for teaching our children. Often our role as parents is best accomplished by connecting our children with the learning environment which is a good match for them. In a family business, this may involve working outside the business; participation with peers in a university based family business forum, a Board of Advisors, and

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employees within the business who are able to assume a stewardship role in training the next generation.

When is the time to start training the next owner of your family business? You can see that successful transitions are begun many years before by communicating values, having a forum for education and problem resolution, and individualizing as candidates enter adulthood and the business.

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