

Generation to Generation:

The Critical Challenges to Family Enterprise Continuity

Kelin E. Gersick, Ph.D.

Family Business Network International Seminar

Sao Paulo, Brazil

June 24, 2008

© Lansberg•Gersick LLC
New Haven, Connecticut

A father speaks...

“I used to feel confident that whatever happened, nothing would threaten our family. We were one. We had the normal conflicts and rivalries ... but that was on the surface. I felt that I knew what we stood for, and who we were, and that our family identity was reflected throughout our business.

Now I’m not so sure. People are moving away -- not just from our home, but from our heart. Has it all been for nothing?”

And his son replies...

“Everyone keeps asking me what I want to do. I’ve heard plenty of rules and warnings. How am I supposed to know what I want to do? I feel the pressure of what my family expects, but I am different, and my world is different.

I have no idea how I fit into the picture -- or if it’s possible to fit into the picture at all.”

A patriarch speaks...

“I have spent my life building this business, for the benefit of the whole family. But I know that some day this company and this family will have to continue without me.

When is the right day? What should I do then? What should I do now?”

Realities of Contemporary Family Enterprise Worldwide

- The aging of a remarkable generation of wealth generators
- Unprecedented business opportunity
- A global dispersal of popular culture that has led to a worldwide “generation gap”
- Massive shifts in wealth that puts families in unfamiliar territory regarding values and luxury

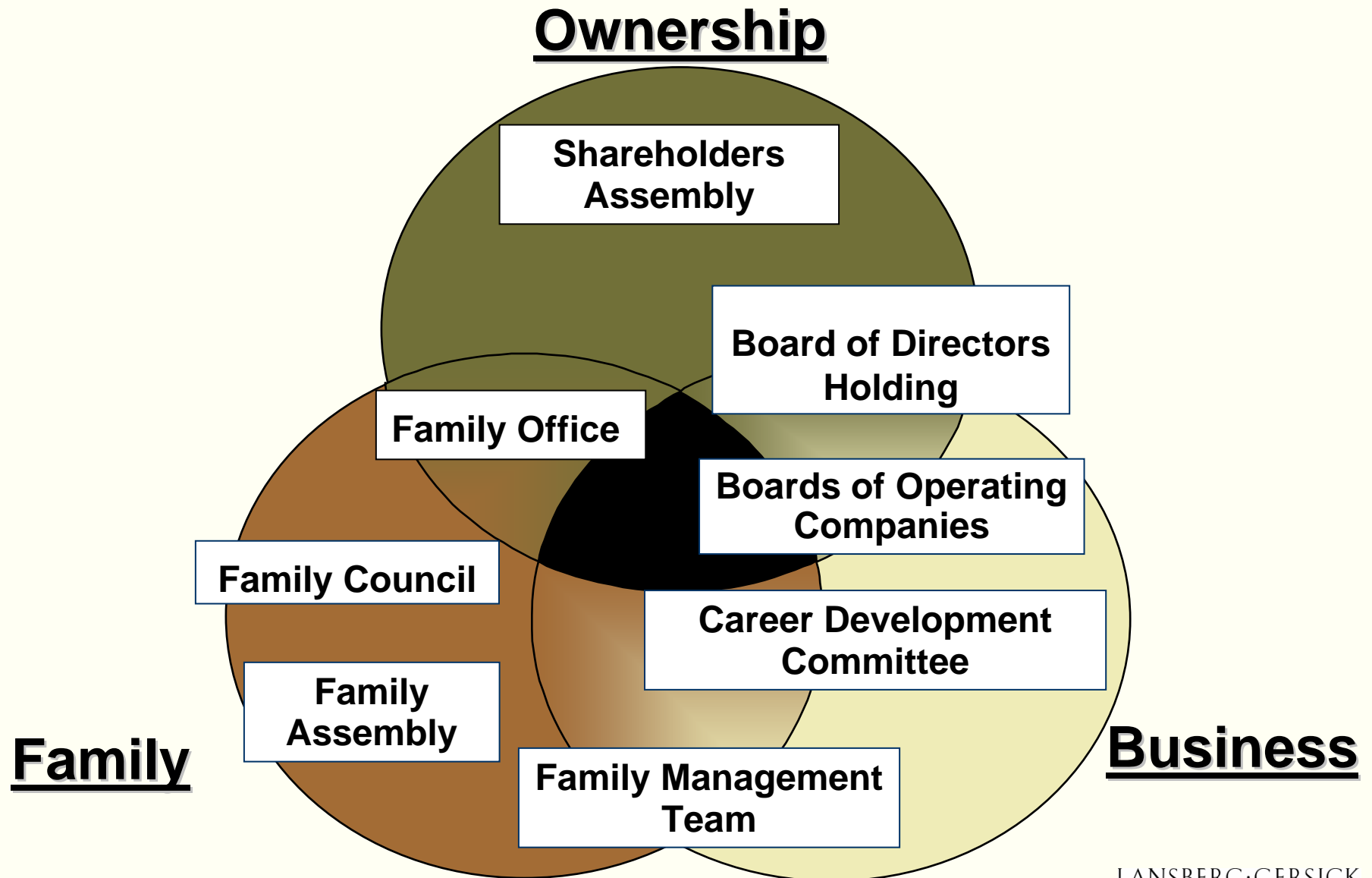
PART I:

Continuity Challenge #1

The Challenge of

Governance Structure and
Process

Governance Structures



The Family Assembly

PURPOSE: An annual meeting for the entire family, including information about all aspects of the enterprise, education, and discussion. Family Assemblies are often held at the same time as, but are different from, shareholders' meetings.

The Family Assembly

A FAMILY ASSEMBLY is, *AT ITS BEST*:

- ⇒ An event where relatives can update their information about each other and share views among branches, generations, and those who live far apart
- ⇒ Open to all family members, scheduled to maximize attendance, and including events for all age groups
- ⇒ An opportunity for the family leaders in the business (and the foundation or other parts of the enterprise) to make brief presentations on the past year's activities
- ⇒ Includes an educational, recreational, or community service event that fits particularly with the family's identity and culture

The Family Council

PURPOSE: A working group to provide continuity in family values, identity, education, and socialization. If there is a Board, the Council gives guidance to the family directors about the family's interest in policies of the enterprise. The Council serves as an executive committee of the Family Assembly between meetings.

The Family Council

A FAMILY COUNCIL is, *AT ITS BEST*:

- ⇒ Ideally 5-9 *elected* members, representing all branches, generations, in-laws and direct descendants, and both genders
- ⇒ Meeting as often as necessary to actively guide the family's common interests (typically 2-6 times per year)
- ⇒ Made up of individuals who are both inside and outside the enterprise
- ⇒ Semi-formal in its style -- serious about its purpose, but flexible in its operations

The Work of the Family Council

A FAMILY COUNCIL agenda may include:

- ⇒ Discussing the family's core values, culture, and mission statement
- ⇒ Designing activities to educate younger generations about the family and to support contact among cousins
- ⇒ Overseeing the process for electing or appointing family representation on boards, councils, and trustee groups
- ⇒ Overseeing the management of the family's collective assets
- ⇒ Organizing family events and celebrations

The Family Office

PURPOSE: A professional services center to coordinate family requirements such as estate planning, insurance, tax planning and preparation, legal services, investment management, family staffing, philanthropy, and security. The range of services offered by Family Offices depends on the size of the family and the family's interest in collective financial management.

What Interferes with Implementation?

1. Failure to maximize utilization of the family human resources
2. Resistance to the generational transition

Challenges to Maximizing Family Human Capital Utilization

- How broadly do you “cast the net?”
 - Birth order
 - Gender
 - Roles
- What incentives do you offer for leadership?
- How do you manage conflict?
- How do you maintain commitment?

Family Roles

WHO FILLS THESE ROLES IN YOUR FAMILY?

Task leader

Gets the job done

Emotional leader

Keeps track of feelings

Social director/
Communicator

Focuses on group process
and information flow

“Pot stirrer”

Raises controversial issues

Headache

Challenges basic assumptions

Other

Impact of Family Roles on Governance

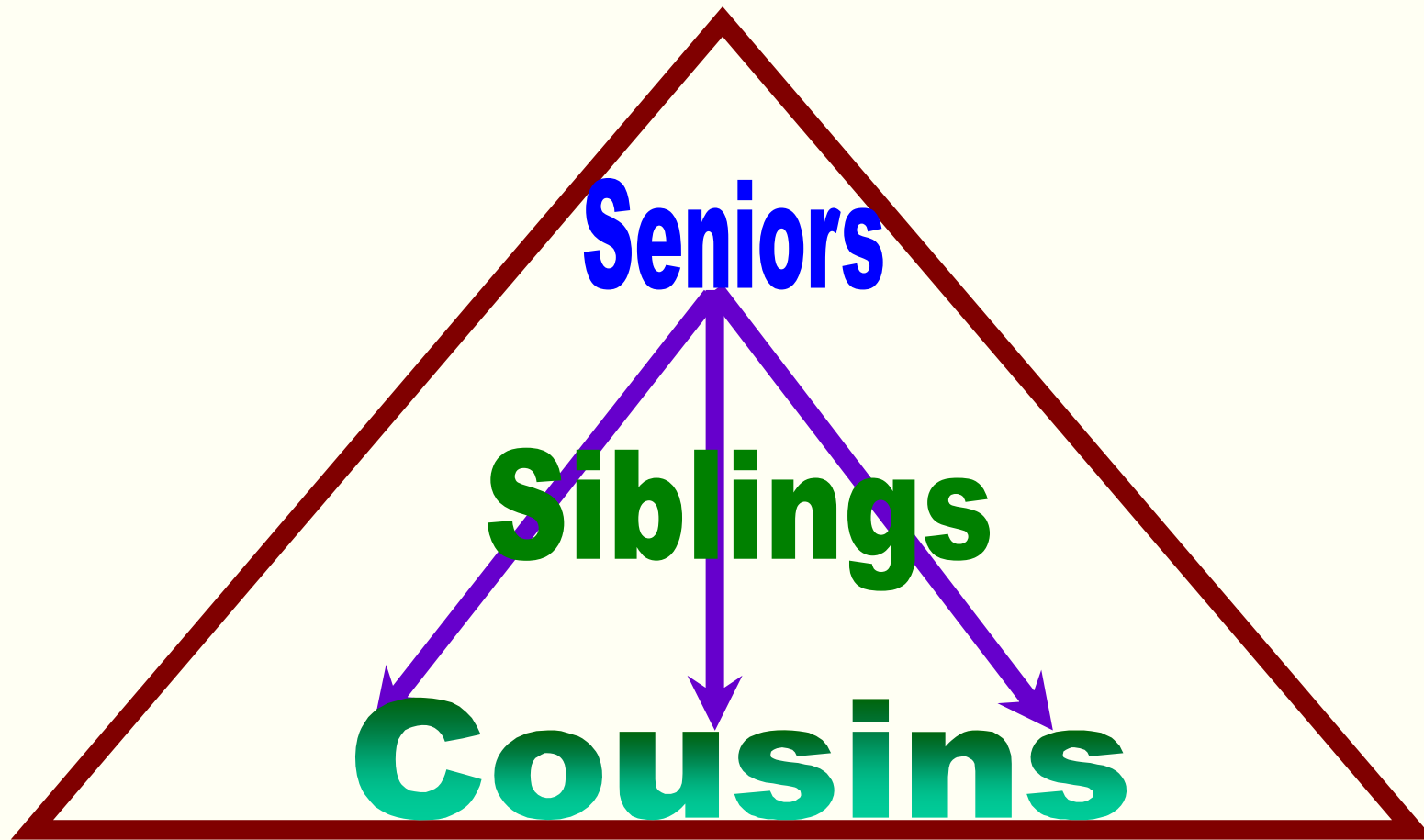
Search for the “best fit solution”

- Think about how each person's style and talents can make a contribution – it's not “one size fits all”
- Don't trap people in one role forever – allow for maturation and development

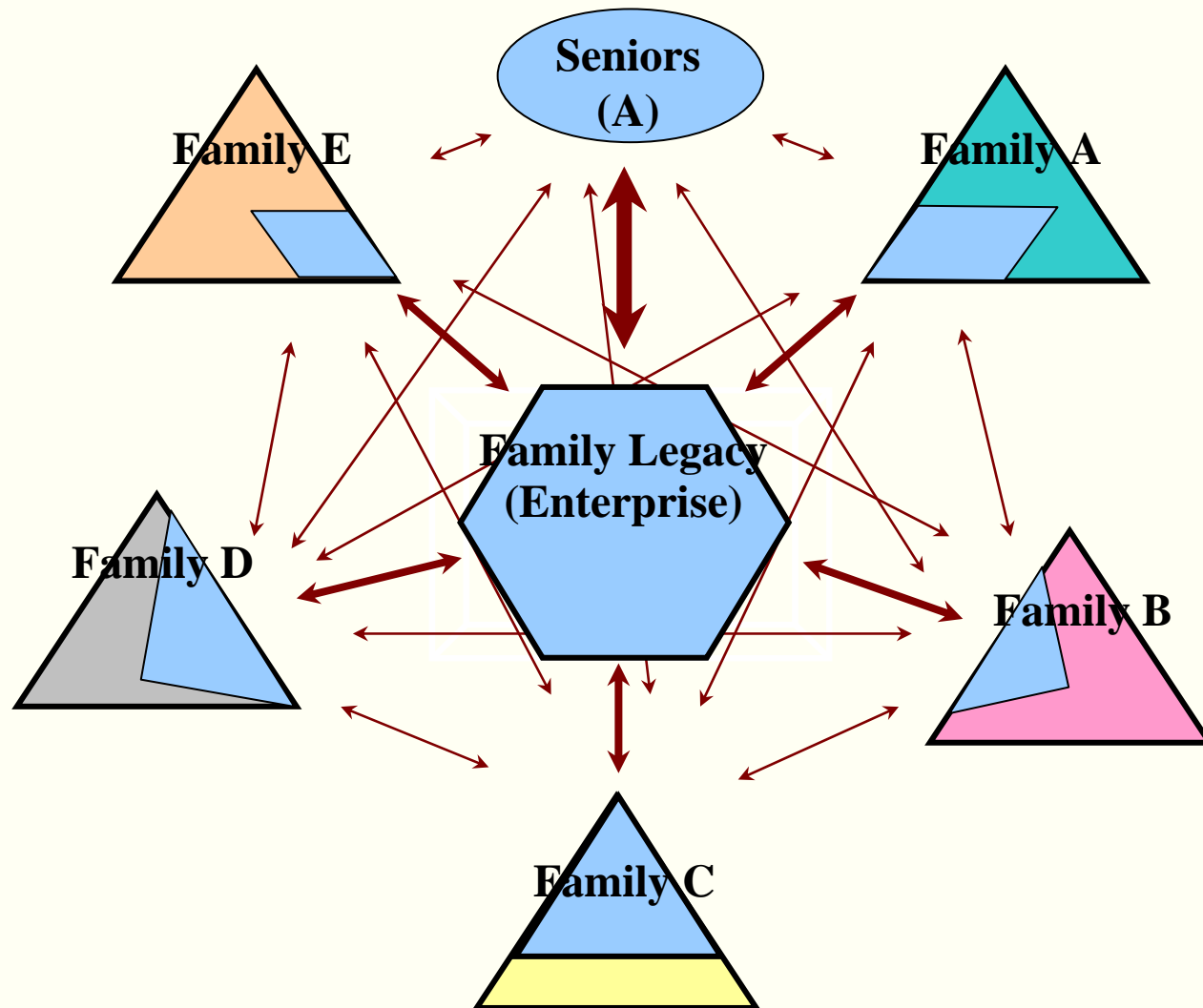
Conflict Management

- Conflict is imported into governance, not caused by it
- Be aware of “ventriloquism” in conflict
- Conflict management must fit the cause:
 - Content \Rightarrow *rules for interaction*
 - Power \Rightarrow *rules for governance*
 - Bad behavior \Rightarrow *authority and control*
- Serious conflict may require outside intervention

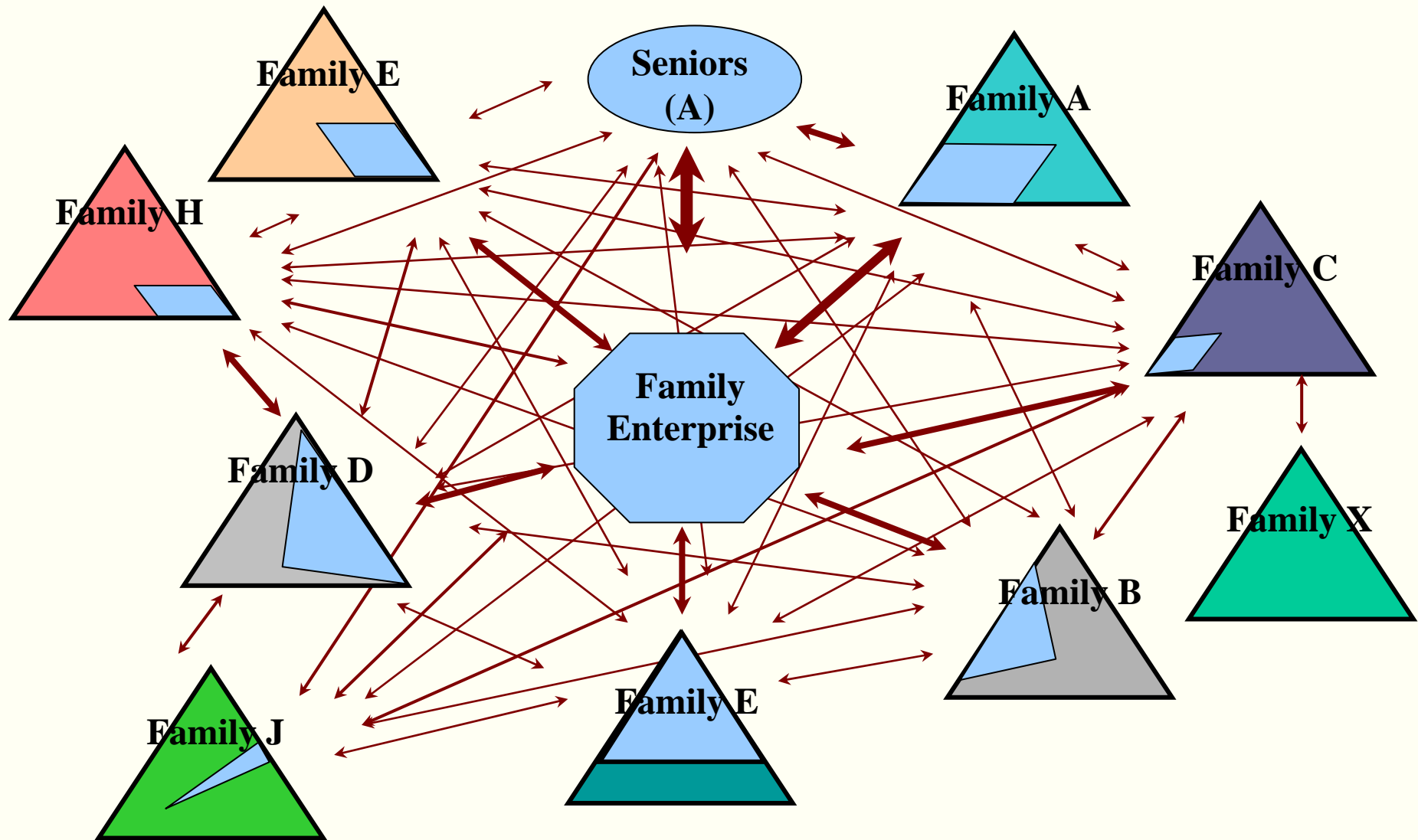
The Seniors' View of THE FAMILY



The Juniors' View of The Families



The Complex Family Network



Family Issues Triggered by Entry of the “Next Generation”

In the nuclear family...

- Parenting style and authority
- Ambivalence (fear) about aging

In the complex family...

- Pride and/or embarrassment about offspring
- Old sibling conflict

balanced against...

Family Issues Triggered by Entry of the “Next Generation”

- Discovery
- Pride
- A glimpse of the future – and an acknowledgment of the inevitability of transition

Continuity in Governance: Lessons from Experience

- Utilize all of the family's resources: a "best fit" solution, not a tournament
- Be realistic about the costs and benefits of leadership, and create incentives for service
- Honor diversity *and* protect a sense of family identity and distinctiveness.
 - Find authority in effective collaboration, not in autocratic hierarchies.

PART II: Case Analysis

Diagnosticos da America S.A.

Dr. Caio Auriemo

PART III:
Continuity Challenge #2

The Challenge of
Generational Transitions

Issues in Generational Transitions

- Letting Go
- Taking Charge
- The “Succession Conspiracy”

Developmental Pressure toward a Generational Transition

- Maturation of the juniors
- Maturation of the seniors
- New challenges and opportunities

Triggers of Generational Transitions

- Health Crisis
- Business Crisis
- Family Crisis

Resistances to “Letting Go”

The Loss of Heroic Mission

Control

Judgment

Network

Finances

“In the hands of others, the organization will lose its way, and its ability to achieve excellence will be diminished.”

Resistances to “Letting Go”

The Loss of Heroic Stature

Deference

Inclusion

Significance

Gratitude

Vigor

“Without my title and role, my life will become unfulfilling and valueless.”

Leadership and Authority

How does authority get established
in the eyes of the followers?

By successfully answering their
question:

“Are we in good hands?”

Testing the Rising Generation

The more doubt and uncertainty there is about the leader the more intense and prolonged iterative testing will be.

Testing Leadership Qualities

- **Vision:** Does the leader know where he's taking the group and do we like it?
- **Task Competence:** Can the leader get work done and, especially, *protect* the group?
- **Socio-emotional:** Can the leader foster collaboration and bring out the best in others?
- **Moral character:** Does the leader understand, respect and live up to the group's values?

Implications

Effective enterprise leaders embrace iterative testing and *manage* the process –

by giving observers maximum data to answer the fundamental question... “Yes”

How Can Seniors Help Successors “Pass the Test?”

- Do not overprotect.
- Allow the first mistakes to be small, in the periphery.
- Formalize and legitimize strong, accurate feedback.
- Create a loyal team, and honest mentors.
- Advise counteracting weak areas with unexpected focus.
- Model taking blame but sharing glory.

The “Succession Conspiracy”

The system will often act to delay, defer, or undermine succession planning:

- To avoid analysis and review.
- To protect status quo authority relationships.
- To keep the leader “out of the kitchen”

Overcoming Resistance

Education of the system about succession planning and implementation

Proactive preparation by successors, demonstrating their expanding capabilities

New leadership opportunities: foundations, community boards, family councils

Benchmarking with peers who have completed “letting go”

Overcoming Resistance

5. The ultimate reckoning: Integrity vs.
Despair

Acceptance

Making the final peace with the
Dream

Global Lessons from Experience

- Invest in “far-horizon” governance
- Cast the “human capital net” broadly
- Send the next generation out into the world
- Articulate the family dream
- Build commitment in the stakeholder family
- Address transition planning with courage

PART IV: Question and Answer

In-depth exploration of themes
from the participants.