

A vibrant, colorful tunnel of wooden planks leading to the ocean under a blue sky with clouds. The planks are painted in various colors like red, blue, yellow, and green, creating a rainbow effect. The tunnel recedes into the distance, leading to a view of the ocean and a bright sun. The sky is filled with soft, white clouds.

Deloitte.
Private

Pivotal moments for family enterprises
**Leadership transition
and the next generation**

November 2022

EDITOR'S NOTE

Like a great work of art, family enterprises are unique, crafted over time, and highly valued. While no two family enterprises are the same, they are united by a series of pivotal moments—opportunities to grow, evolve, or transform—and preparation is essential for fully seizing those opportunities. This is the sixth article in a series exploring the eight foundational elements that can help family enterprises maximize the opportunities that arise. Because, with the right canvas, family enterprises can craft a business that supports its evolving vision, interests, needs, and values for generations to come.

For family enterprises, the process of transitioning from one family leader to the next can be a time of trepidation and uncertainty, excitement and optimism, or perhaps a combination of these and other emotions. In most cases, **the fate of the transition is determined by how well the business, board, and family have prepared.**

As we've shared throughout this series, a well-run family enterprise is grounded by a solid governance structure, which guides the business, the family, and ownership on many important matters, including generational succession. With good governance in place, confusion may be replaced with celebration as the family looks forward to ushering in the next generation of leadership.

Current leaders play a significant role in setting the tone for the transition when a leadership change is forthcoming. Sometimes the older generation of family leaders expects the next generation to maintain continuity in the business without deviation from established operational practices. This can not only

hamper the business's growth potential and innovation, but it can leave the next generation feeling a lack of authority and reduce their desire to take leadership roles. However, the forward-thinking leader views a transition to the next generation as an opportunity to infuse fresh thinking and elevate the business while simultaneously sustaining the family's legacy.

Achieving that balance of allowing next-gen leaders to find their own way while honoring the values, principles, and purpose that helped establish the business to begin with requires current family and business leaders to approach the transition with open-mindedness and intentionality. And that begins with observation.



The value of observation and involvement

In many families, parents serve as role models—imparting values and expectations along the way. As children observe their parents, they're learning what family, relationships, money, community, and work mean to them. They're also forming their own perspectives.

Within the family enterprise, observation can be just as powerful a guiding hand. When rising family members are put in a position to watch and learn, and participate in discussions regarding the business, they're getting valuable education. Engaging them in this way encourages relationship building as they learn to share values or other commonalities with family members and business leaders—paving the way for strong collaboration in the future. Observation also helps build emotional readiness so they're prepared for the pressures they might encounter later. Finally, they can learn how best to contribute on their own terms to the family's efforts and initiatives, allowing the family to cultivate entrepreneurial energy and responsible ownership across generations.

How can family businesses accomplish all of this? Enterprising families should think about how they can incorporate next-gen leaders into day-to-day business operations. Within some family businesses, rising family members are invited to attend regular board meetings as observers, with time reserved afterward for them to ask questions. As they



become more familiar with the intricacies of the business, it can be valuable to make them aware of key business decisions and activities, including business investments, potential opportunities to monetize parts of the business, and corporate sustainability/social responsibility efforts for example. This level of inclusion can not only help them build their decision-making abilities before they assume leadership roles but also create opportunities for inspiration and engagement while strengthening business knowledge and skills.

A two-way street

As senior family leaders impart their wisdom and look for opportunities to expose next-gen leaders to the inner workings of the enterprise, it's important for them to leave the door open to the new

perspectives that might come along with that. There's a tendency among some first- and second-generation family enterprise leaders to want their successors to do things their way. But, in some critical ways, they need to be able to take a risk on the next generation, tapping the same spirit of entrepreneurialism and innovation that they used to get the business going and growing.

One shared trait we've seen among some successful multigenerational family enterprises is that they have been empowered by the new thinking and approaches that next-gen leaders bring to the table. Today, many rising family members tend to be well educated and worldly. Many have benefited from participation in specialized training programs or organizations for young

One shared trait we've seen among some successful multigenerational family enterprises is that they have been empowered by the new thinking and approaches that next-gen leaders bring to the table.

professionals. There is also a belief that a best practice for potential next-gen family enterprise leaders is to launch their careers in other companies and industries.

This diverse knowledge and experience can be very valuable. In many instances, family enterprises find themselves facing new and different challenges, such as bridging the digital divide, strengthening environmental stewardship, or ensuring equitable opportunities among their workers. Next-gen leaders may offer not only new perspectives for tackling such obstacles but also the passion to do it. Enabling them to tap this passion within the family enterprise is not only important to the continuation of the family business but also may help it stay relevant as the operating environment continues to change.

There's power in multigenerational thinking. Enterprising family leaders who have successfully transitioned from one generation to the next tend to blend old and new perspectives. Graduating from "my way" to "our way" can be difficult and takes concerted effort, yet many businesses have benefited from sharing decision-making across generations—at least to some degree—before the senior generation exits the business. Together, the present and

future leaders can work to formalize the values and principles they have in common, while trying out new approaches and ideas as a team. Sharing in decision-making can also identify areas where they lack adequate solutions and can engage others—such as independent board members and advisers—to help close the gaps.

Finding the right roles

Leadership succession doesn't look the same at every family enterprise. Based on their skills and interests, there are very distinct roles that rising family members might assume within the family enterprise system—and the capabilities required can be very different. For example, a functional role such as chief financial officer requires very specific capabilities and financial acumen, while leadership roles within the family office or the family council might place more emphasis on "softer skills" such as emotional intelligence, communications, and negotiating prowess.

As part of the transition process, senior family leaders should pay attention to the interests of next-gen leaders and work to determine their level of literacy across financial, emotional, interpersonal, and other dimensions.

In the best of cases, enterprising families have set clear expectations for leadership positions. All candidates for positions in question need to understand the qualifications and requirements as well as have input into the process. It doesn't necessarily need to be "equal," for instance, in the case of two family members who entered the business at different ages. But full transparency in leadership succession decisions tends to keep acrimony at bay and help ensure buy-in from key stakeholders such as non-family executives and employees.

While many families take pride in passing the leadership of their enterprise down to the next generation, for a variety of reasons that might not be practical. Leaders that recognize this will then look outside the organization for leadership that can help the business prosper. In either case, good governance processes can aid in supporting smooth transitions and success rests on the ability to manage relationships, keep an open mind, and involve next-gen candidates as early as possible. In other words, there is an art to it—and, as any successful artist will tell you, it takes lots of study and experimentation to hone your craft.

Questions to consider asking for supporting leadership transition

- How involved are next-gen family members in the day-to-day running of the business, and what processes are in place to identify and develop their strengths?
- Are next-gen family members invited to attend key strategy sessions such as regular board meetings?
- To what extent are next-gen family members encouraged to strengthen their knowledge and skills outside of the family business?
- What channels are available for rising family leaders to ask questions about company strategy and offer their own perspectives?
- Has the process begun for identifying and developing potential family successors for key leadership roles?
- Have the preconditions for leadership succession been clearly established and communicated to all interested family members?

NEXT UP IN OUR SERIES

“The future of the business,” which will discuss how to prepare for a sale and other exit strategy options.

GET IN TOUCH



Wendy Diamond
US Family Enterprise Leader
wdiamond@deloitte.com



www.linkedin.com/in/wendy-diamond

CONTRIBUTORS

Jake Wise, Managing Director, Risk & Financial Advisory, Deloitte & Touche LLP

Max Hughes, Senior Vice President, Deloitte Corporate Finance LLC

Ryan Stecz, Partner, M&A Transaction Services, Deloitte Tax LLP

Micaela Saviano, Partner, Private Wealth Tax, Deloitte Tax LLP

Deloitte.

This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. In the United States, Deloitte refers to one or more of the US member firms of DTTL, their related entities that operate using the “Deloitte” name in the United States and their respective affiliates. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see www.deloitte.com/about to learn more about our global network of member firms..