Start planning early to avoid family failures

Next generation

Handing a business down through the family is never easy, says *Emma Jacobs*

On leaving school, Elwyn Griffiths, who manages Oaklands Farm Eggs with his brother Gareth, was sent by his father to the US. "I was told to 'travel, look and learn'. Only then could I come back to work for the family firm." There was one condition: he had to earn enough money to pay for his flight home.

So he proved himself, working on various "huge farms" before returning to the Shropshire fold, and ultimately taking over the company with his brother.

Today, Oaklands Farm Eggs employs 110 people and produces nearly 500m eggs a year.

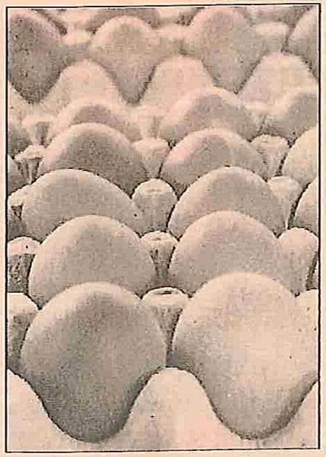
According to a US study, nearly nine out of 10 family business owners believe their families will still be in control of their company in five years. In reality, less than a third survive into the second generation, only 12 per cent are still viable into the third, and just 3 per cent of all family businesses operate into the fourth generation and beyond.

Failure to properly manage the issue of succession planning is often to blame for this. According to Juliette Johnson, head of UK family business at Coutts, the private bank, it is often the case that "emotion blurs the vision of leaders".

Some heads of family-owned companies "make their children feel obligated to join the company, which can backfire by creating a crop of managers who aren't interested in being there", George Stalk and Henry Foley wrote in the Harvard Business Review last year in a study looking at some of the reasons why succession can go wrong.

Mr Stalk and Mr Foley suggest putting family members through rigorous performance assessments to see if they are suitable to take on the role.

Nigel Nicholson, professor of organisational behaviour at London Business School, believes that part of



Productive: Oaklands Farm sells 500m eggs every year

the problem is that the next generation is often wary of being branded as a "beneficiary of nepotism".

They should not feel this, he says, as taking over a family business can be extremely challenging. "They [the next generation] need to understand that they are contributing to that precious, intangible 'family capital'," Prof Nicholson says.

Mr Griffiths at Oaklands Farm hopes that one or all of his three nephews, aged between 18 and 24, will join the family company, although he insists they will "have to prove themselves before they can come into the business, and show they will be an asset".

One way to test family members' aptitude for business is to give them a chance to work outside the family company, either in another operation, or by investing in their own start-up.

This is known as "reverse succession", in which a company head encourages a younger relative to set up their own business to prove their ability before the parent buys back the enterprise and brings them back into the fold.

Elisabeth Murdoch is one example of this. After working for her father, Rupert Murdoch, in a senior role at the satellite broadcaster BSkyB, she left to start Shine, a television production company.

A few years later, Shine was bought by what was then called News International, Mr Murdoch's newspaper group, for £415m.

If done well, reverse succession can mean that the successor is respected by colleagues rather than being seen to have acquired their position through nepotism.

Prof Nicholson believes succession planning tends to fail when companies misread their future needs – "often because their vision is not aligned with reality".

They also misread their leadership requirements, and the kinds of people who will thrive.

He says: "They make the mistake of measuring talent as if it were a unitary fixed quality rather than something that has to adapt to needs.

"They then end up with a list of favourites groomed for succession and set in place, without realising that a good 'number two' may be a lousy 'number one'."

Nicholas Oughtred, chairman of William Jackson Food Group, the owner of the Jackson's Bakery brand and Able & Cole organic food delivery business, warns against "family recommending family".

In his case, the use of external professionals to assess potential successors has been "invaluable".

"It is very important to make the process transparent and be up front about what it is," says Mr Oughtred, the great-great grandson of William Jackson, who founded the company in Hull in 1851.

Mark Hastings, director-general at the Institute for Family Business, which represents the UK's family business sector, says the key is to plan early.

"Where it tends to go wrong is that nine times out of 10, people haven't started early enough or they are suddenly struck with succession because of a sudden death," he says.

He advises planning your successor as soon as you assume a chief executive or chairman position.

Mr Oughtred agrees on the wisdom of planning early. "I'm in my second five-year term and we are already discussing . . . as a family, my replacement," he says.

For those that lose out on the top job, Mr Oughtred advises provide them "with a constructive career plan so they get something positive out of it too".

"There must be no losers in a family succession process," he adds.