

The entrepreneur's dilemma

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Every entrepreneur who has a family has to decide what to pass to the next generation. This is sometimes described, a bit dramatically, as the final test of greatness, but from a practical perspective there are options that every entrepreneur should know about when contemplating, what next.

The predictable options

These are (a) do nothing and hope for the best, or (b) sell.

Doing nothing and hoping for the best is not irrational. Life is ever changing so why not wait and see what happens with the family and the business and with the economy or what changes happen with transfer taxes if that is a concern. If something untoward happens while you are waiting, a loving family can do what is best.

One of the reasons this option is popular is because it postpones the need for making anxiety-inducing decisions about the future. However, that challenge is nothing compared to having to make such decisions after something untoward happens, like the entrepreneur suddenly becoming ill. Postponing decisions is inherently a risky option.

The second option is to sell. While exit is the goal for some entrepreneurs, others do not want to sell for understandable reasons.

- They love their business.
- They feel responsible for the employees and even the place where the business is located and that these interests could be adversely affected if the family sold, or as they might put it, sold out.
- The family's reputation, status and identity are bound up in the business.
- Even if they sold the business, the family would have to decide what to do with the wealth so the challenge of planning for the future would not be resolved.

Other options

The following are what other business families have done instead of adopting either of the predictable options.

- a) Primogeniture.
- b) 3 different types of partnership among the next generation of siblings: a team of equals; first among equals; and silos.
- c) Become a governing family.

Primogeniture

One child steps into the shoes of the entrepreneur and takes over leadership and ownership control of the business. The main attraction of this is that apart from a change at the top everything else about the business can either stay as it was or the successor has power to change it.

This outcome obviously depends on there being an offspring who is talented enough to succeed. If there are other children, they must be willing to accept this outcome to avoid family disharmony. They may do this because it is culturally expected of them, or they might inherit non-business assets and possibly a minority stake in the business.

Partnerships

In these cases a group of relatives want to continue owning and managing their business, the question is how? The answer will depend on their respective skills and the strength of their relationships, but they usually end up with one of the following.

The **team of equals** is a group who happily have complementary skills that are needed by the business and who can share leadership powers and responsibilities as a team. This is underpinned by mutual trust and respect and an ability to be candid when it is necessary to clear the air.

First among equals is favoured where relatives are able and willing to share ownership and work in the business, but they acknowledge that one of them is more able and talented than the others and that relative takes on the leadership role. This appeals to families who feel that there must be a family member in overall charge of the business instead of operating as a team of equals.

There is an important issue that the relative in charge needs to consider. Taking over from the founding entrepreneur may mean taking on a quasi-parental role, with aspects of looking after the rest of the family and taking decisions for them. In one case this resulted in the relative who everyone felt was the natural successor saying, 'I'm not going to parent my relatives.'

Silos are popular and successful, even if they run counter to conventional management thinking. In this case, relatives who want to stay in business are uncomfortable about working closely together and they fear that having to decide who has the overall leadership role will create conflict. Instead, they organise the business so that each of them can control part of it separately from the others.

In essence the family adapts to collective ownership and control by creating operational silos. These may be divisions in the same business; for example one sibling oversees manufacturing, another controls sales and a third manages finance.

The silos could also be constituted in separate subsidiaries within a corporate group or as separate companies in different locations, but the overall effect is the same. Each family member can operate their silo with significant autonomy and in the expectation that none of their relatives will interfere.

The governing family

The step-change in this option is where a family can imagine a future in which their business is family owned but not entirely family run. In this case the family's role is to monitor and oversee the executives who have been hired to run the business.

The role of the governing family must be carefully crafted so that there is a workable balance of power between the family and the business leaders. For example, the family may reserve power to makes some decisions that are sensitive for them such as making redundancies or corporate sponsorships that affect the family's reputation as well as substantial business decisions that put their capital at risk.

Choices, choices, we must all make choices. Given that this is unavoidable, it is useful to know your choices.

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