

# Knowledge before power – handing over the firm

When handing over a business to the next generation it is difficult to know exactly what to teach your successor and what information to leave behind. Dennis Jaffe explains how the knowledge you have accumulated over the years is the most valuable thing of all ...

It seems like a long time ago, when in 2000 a US presidential election pitted George Bush against Al Gore. Much was made of the fact that they were both “fortunate” sons and grandsons of prominent political figures – the implication being that they had an unfair advantage in getting to where they were. But in every field of endeavour, we find successful next generation successors. While there are many families where the parent moves the child ahead with little effort on their part, many successful scions report that their parents encouraged them to spread their wings. What really accounts for their success? Is it good genes, hard work or unfair opportunity?

There have been accounts of growing up in the Gore family. Young Al was part of conversations with many of the leading political figures of the time, so political dealings were part of his everyday life. He had a deep, mentoring relationship not just with his father, but also with his grandfather. While the family had wealth and power, it appears that his most valuable inheritance was the learning opportunities of being in the family, and with the elders.

To determine how valuable, and also maybe how rare, such active engagement can be, consider another style of family upbringing that might have occurred. His parents, busy as they were, could have neglected him. They might have decided that children should not be exposed to the reality of their lives and passions. The family would then have deprived their son of an important part of his inheritance even as they gave him what they thought were all the good things in life.

When a scion enters and works within the family business, either of these two scenarios can apply. They can be pushed to learn and grow outside the business, or they can be introduced to a world of social prominence with other wealthy peers.

A parent who has created a successful business looks at his sons and daughters as a potential pool to locate one or more successors to lead the business and the family. But the parent should begin the grooming process early, in some ways many years before they enter the business. Before they

inherit the power and wealth of the family, heirs should have access to the stored-up wisdom of their elders. That knowledge is stored not just in their experience, but in the network of people they know, the shared trust they have developed and their understanding of how things really get done.

This presents a challenge unlike any the elders have faced before. First of all, they may not be aware of what they know. Much knowledge is what is known as “tacit” or visceral understanding that its owners aren’t really aware they have. It may be almost instinctive, as playing the piano or reading a balance sheet can be, so it is hard to put into words or describe to others. Learning theorists have struggled to define the decision rules – known as heuristics – that make up creative behaviour. If this is the case, a young person can follow his father around for years, and not really grasp what he does or how he does it.

*“The older generation should initiate a regular family forum for mentoring and discussion”*

## LEARNING THROUGH OSMOSIS

Tacit knowledge doesn’t arise by imitation or observation. It seems to come from a combination of being placed in challenging situations that are designed to unlock similar skills, and then having the time to be quizzed and exchange ideas with the master. A young heir can be asked to try to work on a business alliance when they are not quite ready. Then, as they make mistakes or apply their own intuitions, they have time to have their decisions challenged and their skill developed. A noted business patriarch has a standing rule that he can always be interrupted to talk with one of his sons. His mentoring can raise questions and suggest paths to take that help his child to learn.

Before succession occurs in a family business there is usually a period of more than a decade when the two

generations work side by side, in a growing partnership characterised by a gradual shifting of power and control from one generation to the other. In order to realise the family's knowledge and wisdom, the young person needs a variety of experiences within and outside of the family business. After a period of time, when the young person is no longer a callow beginner, but possesses some professional skills, they might take a position in a key part of the family business, and also spend some time rotating through jobs or in a position which allows them to move through many parts of the business.

Along with this developmental journey, the older generation should initiate a regular family forum for mentoring and discussion. For parents and children, this relationship is the essence of the knowledge transfer process. It is where a young person and a parent move beyond a parent/child relationship to become peers who respect and learn from each other. This takes a lot of work, and is not easy; some parent/child pairs never achieve it. But we also see examples of fathers and sons like the Roberts' of Comcast, who worked together for many years, culminating in a quiet transfer of power that occurs easily and seamlessly. Some families do this with one-to-one meetings, such as a weekly breakfast where the two generations share what they are learning.

Often, the younger person has been exposed to innovative ideas while at school or work outside the business, and he or she is excited about bringing them into the family business. In a recent family business forum where four multi-generational businesses were inducted into the region's Family Business Hall of Fame, the third and fourth generation heirs talked about having the trust of their elders after they had earned their stripes. Each generation faced the challenge of having to reinvent some aspect of the business. As one son noted, this could not be done on the first day of work, but only after they had shown that they were capable and that their innovation or change was grounded in reality.

If a family is large, it may have more than a handful of family members in the second or third generation. One family business of Chinese origin, started by five brothers, has nearly 10 members of the second generation in their 20s starting work in various roles. The brother who is the business leader holds a weekly seminar for the group, where they all talk about what they are doing. There may be guests, who are advisors or resources, to talk about a key business decision. But the seminar isn't about operations, it is about learning. Everyone is aware that they have many years before the new leader is chosen, and they feel comfortable getting to know each other, and learning together. Over the years, the family expects to transfer the wisdom of the first generation to the next, and also help them develop their own entrepreneurial style as they take the business in new directions. Members of the group are encouraged to bring new ideas to the family, where they can be explored and, sometimes, acted on.



The transfer of knowledge from one to another is not always straightforward

#### KNOWLEDGE FOR SHAREHOLDERS

The transfer of knowledge is not confined to the family members working in the business. Many families fall apart because the family shareholders do not understand the complexity of their holdings, why decisions are made, or how they are expected to act as responsible owners. Several families with large businesses have annual visits where key executives present what is happening to the group of family shareholders, and they are given an opportunity to talk about and learn from the company. Other families hold seminars about personal finance, spending and investing to help family members act responsibly with their inheritance. They may also have presentations about the family history and legacy, where elders talk about where they came from, which is a way to pass on the shared knowledge of the past. All these activities develop the intellectual or human capital of the next generation of the family.

A family business or shared family assets offer tangible wealth to the next generation, but that is only part of what they can inherit. They can also benefit from inheriting some of the special knowledge and skill that the older generation has obtained through its success. This may include opportunities to meet important and learned people and access to special learning opportunities that may end up being worth more than a financial inheritance. A family that focused exclusively on the financial aspects of inheritance, or who will have the power to run the business, should do this when they are secure in the knowledge that the key people in the next generation have already inherited the special knowledge, skills and relationships that the family has amassed. ●

Dennis Jaffe is a founding partner of Relative Solutions.