Letting Go and Holding On: Managing Change in Family Companies

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Have you ever noticed that senior and junior-generation members want to talk about a generational transition using two, quite different words? The senior generation likes to use the word *continuity* (as in continuity planning) while the junior generation talks about *succession* (as in managing succession). Focusing on different aspects of a generational transition are perfectly understandable. The senior generation, having invested much of their lives in building the company, its culture and its assets, wants to continue the things that work and that they are attached to. The junior generation wants to have its turn at the helm, modernize the company and try out its ideas. So the junior generation tends to emphasize changing things. By focusing on one word or theme and not recognizing the importance of the other can lead both generations to talk past, frustrate and aggravate each other. You don't want to disrespect the other side in a process where both sides ultimately need the other to succeed. I recommend to the next generation that they focus the conversation about the transition first on continuity—what needs to stay the same (which reassures the senior generation) and then turn to what needs to change. Once the senior generation hears that the junior generation wants to preserve core elements of the family business, the seniors feel more respected and are more open to discuss plans to change the company.

Clearly, both continuity and succession themes are key to generational transitions. When you are transferring responsibility and authority from one generation to another, there are things you typically want or need to keep the same: a successful company's core values (or most of them) usually should be preserved and its reputation should be guarded; the company's loyal stakeholder relationships typically should be continued. Then there are things you need to change: certain people need to change jobs at the top of the company and ownership needs to change hands; certain strategies and management practices might need to be updated. And we may want or need to change certain things like the company's marketing image.

An observer of a generational transition in a family business can see that these two, opposing themes—keeping certain things the same and changing some things—are complements. Effective change is never **wholesale** change. Whenever the next regime tries to change everything when they take power, they usually fail and efforts to meaningfully change the company, family, or society are less effective. Many aspects of a company or a society exist because they work and people like these features of their organization. The saying, don't throw the baby out with the bathwater, applies nicely here. This is why ideologues in government and business are dangerous. They just don't get this principle: successfully changing any organization—a business, a family, a society—involves holding on to things that are important to continue and letting go of things that need to change. Knowing what to hang onto and what to let go of is the real challenge.

High performing family companies are unquestionably better at holding onto certain things that are important and letting go of other things that can hold them back. They generally choose successors, for example, who represent the core values of the family and business and, at the same time, are determined change agents. The senior generation in these situations empowers deserving next generation members to pursue business activities that can help the company grow and adapt. The next generation shows respect to the seniors and other ancestors' foundation of values and accomplishments. One of the best examples of this I have ever seen is the 16 generation-old Kikkoman Corporation in Japan (makers of soy sauce and other sauces), owned and led by the Mogi family. Next generation members are tested for their ability to not just successfully operate divisions of the company but to develop new business activities and to lead the company in new directions. For generations, Mogi family successors have been what I call loyal change agents who seem fixated on innovation and adaptation while protecting the core values of the family and business. Good Brazilian examples of loyal change agent successors include Andre Johannpeter at Gerdau, Alexandre Birman at Arezzo, and Eduardo Melzer of RBS.

Consider another important aspect of family and family business success—building and continuing a healthy family legacy. A family's legacy consists of its physical assets (operating company, financial assets, personal assets like homes) as well as its skills, values, understandings, relationships, reputation and important alliances. A family with skills, good relationships, a good work ethic and reputation, and strong alliances can often rebound from losing much of its material wealth. A family with few skills, weak relationships, poor values and reputation, and weak alliances can lose a great deal of its material wealth quickly and will probably not be able to regenerate it. The strongest family legacy has both material resources and non-material assets that allow the family to continue to perform strongly.

Family legacies are built through a process of holding on and letting go and involve both senior and junior generations. The senior generation doesn't build a legacy and then give it to the next generation—although that's unfortunately how it is often characterized. Both generations (often three generations) are engaged growing, consuming or losing material assets, gaining skills or not, building or weakening relationships, alliances, and reputation, and redefining family values. At some point in the life of the family, responsibility for the family legacy shifts more to the junior generation and they start renewing the family legacy with the following generation. Legacy **building** is actually a wonderfully fluid and messy process that involves strengthening the reputation and key relationships of the family, holding onto skills, values, understandings and resources that promote the interests of the family and letting go and changing other things that no longer serve the family well.

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Knowing which is which, what aspects of the family legacy are helping the family to stay successful and what the family needs to let go of, involves staying attuned to the industry of the business and the environment of the family and challenging and changing what needs to be changed at the right time. Over time, all families and family businesses need to change some aspects of their legacy. I have never seen a long-run successful family that doesn't change some part of their legacy. Of course, challenging something the family has valued (the business we are in, some of the alliances we have had, some of our beliefs or values) usually provokes a struggle over ideas within the family and business. I have witnessed a number of families challenging and changing the way women are treated in the family business. These struggles are important and healthy as long as they are respectful. In a healthy family business and family, eventually power in the family and business shifts to those people in the family with new and winning ideas. The most enlightened families understand that for a family's legacy to grow and remain adaptive, the next generation needs to be empowered to test their abilities and values and to change things that need to be changed. At the same time, especially the next generation successor of the family needs to understand what parts of the existing family legacy is helpful to the future of the family business.

Families and family businesses are more inclined naturally to hold onto than let go of things, making families and family companies more difficult and complicated to change. Families are also less comfortable challenging ideas and powerful people (like Dad). It always helps if powerful family members are advocates of change and sometimes they are. Regardless of their support for change, the more you can prepare members of the family and family business for the need to change **regularly** and the more you can discuss change in a respectful way, the more successful you will be. Remember these three fundamental ingredients that make change easier:

1. Keep the family's eye on the prize—stay focused on what you are trying to accomplish, your mission. The Ferragamo family in Italy says that they look at their business through a telescope, not a microscope. They look at the big things they want to do, not the little things that are always there and can divide them.

2. Keep looking out into the industry of the business or environment of the family to see the challenges in front of you. Also look into the family and business and understand how you are strong and weak. Have advisors and others who will tell you the truth about what you need to do to stay successful. Have the discussions and decision-making groups (boards, family councils) that will invite challenges to the way you do things now.

3. Start discussions about important changes by first recognizing what you want to hold onto. Honor what and who have contributed to your success even if those ideas and people now need to change. Then move to discuss what you need to change to adapt to new conditions. Remind all parties that remaining successful is the highest compliment to everyone.

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The Cambridge Institute for Family Enterprise is a global research and education institute dedicated to the real issues facing family enterprises. It is a place where progressive members of family enterprises come to learn, exchange ideas, develop themselves and position their enterprises to be not only successful, but sustainable over generations. Its sister organization, Cambridge Advisors to Family Enterprise, advises multigenerational families around the world on strategies to sustain their success over generations.