

Rethinking the preparation of **Next Generation Family Business Leaders**

The role of outside experience



*A multiyear study by
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The involvement of next-gen members in a family business contributes significantly to such firms' continuity and success.

However, that business success hinges on the next-gens' willingness and ability to make those contributions. In order to survive and thrive across generations, family businesses must not only identify those individuals who express interest in leading the firm, but also better understand how to successfully prepare those next-gens.

Historically, when family-business owners ask how best to prepare the next generation for successful leadership, they're often told that those next-gens must work outside the family firm. That's the best way, the advice typically goes, for the next-gens to develop the necessary skills and knowledge as professionals and as individuals – to learn about the job, receive objective feedback, and learn what it really means to “work.” And, indeed, many family firms do require that outside experience.

And yet what evidence do we have that external work experience spells success? Is it possible for the family firm to create an environment internally that fully prepares its next-gen leaders – rather than send them elsewhere and risk they won't return?

Successfully managing a family business and fostering its continuity is a unique responsibility – requiring individuals to manage both family and business relations. Thus, when next-gens take on that role, they assume responsibility for:

- Managing and maintaining both family and business relationships;
- Gaining buy-in from family and non-family stakeholders inside and outside the business; and
- Acting in ways that demonstrate their stewardship toward the family and the business.

To better understand this process, we conducted a multi-year study with next generation members in multiple family firms.

ABOUT OUR RESEARCH PROJECT

To explore the question of whether outside work helps build a more successful family business, our team developed, carried out, and presented the study: “Does working outside the firm make the next generation more successful inside the family firm?”¹

Our research involved conducting in-depth interviews² with 37 members of 11 successful family businesses³. To help us identify and access respondent companies, we relied on colleagues at six family business centers for introductions – Cornell University, Kennesaw State University, LeMoyne College, Loyola University Chicago, St. Bonaventure University, and St. Joseph University.

We worked to identify the experiences that those individuals undertook, and to explore how those experiences generated learning that helped them succeed in managing the family firm and supporting its continuity. Our interviews involved next-gen leaders as well as family members and non-family top managers.

We focused on understanding the *ability* component of next-gen members and how external work experiences helped successors develop these essential skills.

Our team found that internal and external work experiences generated both benefits and drawbacks (see **Figure 1**, below). Working outside the family firm, for example, helped next-gen members expand their personal and general business capabilities, and develop broader knowledge of managing a firm as they experienced how different companies made choices and experienced success or failure.

Working <u>inside</u> the family firm helps the next-gen leader ...	Working <u>outside</u> the family firm helps the next-gen leader ...
<ul style="list-style-type: none"> • Gain in-depth knowledge of the business from the previous generation and from important employees. • Grasp tacit information about the family firm and its sources of competitive advantage that otherwise might be difficult to capture and transmit from one generation to the next. • Enhance his/her understanding of the business' culture and provide the skills and insights to better navigate that culture. • Develop credibility inside the business, particularly among non-family employees who otherwise might not know the next-gen leader well. • Boost the next-gen's self-efficacy and ability to see better opportunities inside the family firm. • Understand the family and the connection between the family and the business. 	<ul style="list-style-type: none"> • Develop general business capabilities including management skills, judgments, and the ability to identify profitable opportunities. • Better establish his/her autonomy, self-awareness, and self-worth. • Gain insights into choosing and developing a professional career path. • Get to know various experts from whom s/he can gain specialized expertise that may benefit both the firm and the next-gen personally. • Observe and draw lessons from how businesses work in different contexts – where they succeed and where they make costly mistakes. • Consider diverse points of view and interact better with others.
... but carries potential RISK that the next-gen leader but carries potential RISK that the next-gen leader ...
<ul style="list-style-type: none"> • May not develop the general business knowledge that comes from experiencing how other organizations function. • May not get to know a variety of people, particularly those whose expertise and perspectives might benefit the business and/or help the leader grow personally. • May find his/her self-awareness, autonomy, and career development limited. • May lack experience in managing varying perspectives. • May have less ability to bring new ideas and innovation because of the respect for tradition. 	<ul style="list-style-type: none"> • Will experience delayed or limited opportunities to learn about the family firm and connect with non-family employees. • May develop expectations about applying his/her external learnings to the family and the firm, only to meet with resistance. • May perceive possible greater opportunities outside the family firm and may choose not to return to the family business at all. • Carries risk of not understanding the role of the family in the business.

Figure 1. Internal vs. external experiences: benefits and risks



At a personal level, too, working outside the family firm boosted the next-gen's self-awareness and autonomy, and created a wider variety of connections that could be useful for the family business and the leader himself/herself.

However, we also found drawbacks in encouraging next-gen leaders to obtain external experience. S/he may encounter difficulty re-integrating himself/herself – and what s/he's learned externally—into the family firm. And, some next-gens will perceive greater opportunity at an outside firm and never return to the family business.

Key finding #1: Pros and cons of working inside vs. outside the family business

Figure 1, previous page, illustrates the potential benefits and risks of internal vs. external work experiences.

Key finding #2: Four competencies that drive next-gen leader's success

By distilling and building on the work of other researchers, our team developed an outline of the four competencies most likely to drive the next-gen leader's success. By "successful next generation" we mean *a family member who enters the business in a management and leadership role and has the capacity to enhance the continuity of the family and the business*. Measures of success may include achieving superior business performance; understanding their family and business environment; and analyzing what will help the family remain together and the business thriving. Those competencies are: Business, Family, Ownership, and Personal. (See **Figure 2**, at right.)

Our study suggests that pursuing external work allows next-gen members to gain knowledge in only two of the four areas: general business and personal. Crucially, we found, *external work did not help the next-gen member develop his/her family and ownership competencies*, which can play a critical role in developing those next-gen leaders.

That then raises a vital question: In what ways can next-gen leaders develop these critical competencies? How much of a role does external work experience play?

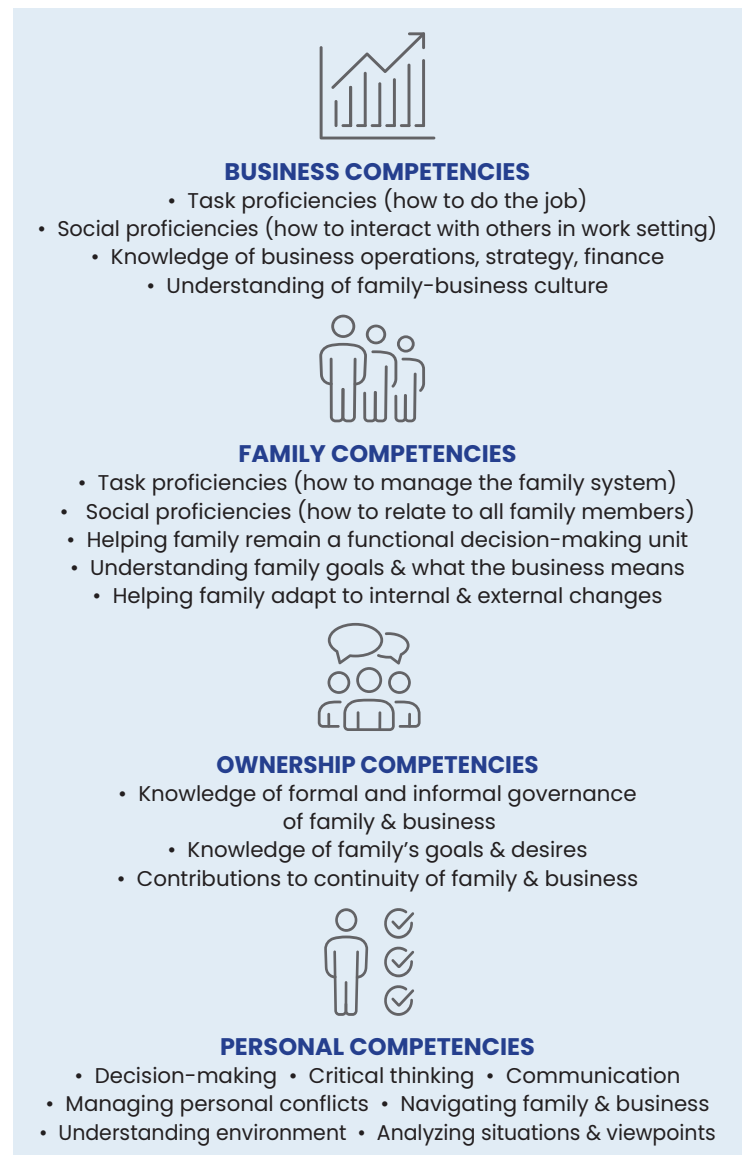


Figure 2. Competencies necessary for the next-generation leader to succeed



Figure 3. Factors that influence next-gen success

Key finding #3: Competencies can be learned via multiple paths and contexts

Scholars who have studied preparing next-gen leaders argue that work experience is only one of several possible ways or environments in which the next-gen can attain the necessary competencies. Several other important experiences and contexts (as indicated in the first box of **Figure 3**, above) typically include parenting, family routines, schooling and formal education, and being mentored while employed in the family business.

AUTHORS' OBSERVATIONS

In developing and disseminating this research, our team has sought to provide family businesses and those who advise them with the guidance and data needed to develop, identify, and/or access the most productive next-gen preparation initiatives.

Some of the respondent companies, our research showed, had already started to develop structured next-gen training programs that included experiences inside the business combined with external networking and participation in learning communities. Some firms have created or accessed a training or development plan, involving specifics regarding both the firm and the industry, for the successor to undergo as s/he joins the family firm.

We continue to encourage all who are interested in next-gen leadership development to use these findings to develop robust learning opportunities, and to share your ideas and programs with us and other family-business networks.

A note for family businesses that currently require their next-gens to gain external experience: In light of our findings here, we respectfully invite you to consider re-evaluating that requirement. Re-examining expectations for what that external experience

is likely to deliver may open the door to a fresher, more targeted approach that will pay dividends for the next-gen, the business, and the family.

Whatever methods a family firm opts for, it's clear that being prepared with and executing a solid plan with clear expectations and outcomes will help both business and next-gen member better understand the steps necessary to develop a mature leader who can leverage the unique, family-business knowledge that contributes to competitive advantage and fosters continuity.

HOW TO GET STARTED

Here are some useful questions that can help family business owners start thinking about their plan for the next generation development:

- What are the skills that your current generation has?
- What skills does the next generation need to thrive in your organization?
- Are there opportunities to learn those skills within the organization or through parallel experiences/mentorships/peer groups?
- How are you planning to provide continuous/developmental feedback?
- What assistance might be needed such as coaches, advisors or educational forums?



FOR MORE INFORMATION

Feel free to contact any of us with additional questions. We welcome your interest!

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¹ Botero, I., Binhote, J., Astrachan, J., and Wittmeyer, C. "Does working outside the firm make next generation members more successful inside their family firm?" International Family Enterprise Research Academy. 2021. Best Paper Contribution to Practice Award. Full copy at https://fisherpub.sjf.edu/business_facpub/92/.

² Interviews were conducted from March to October 2017 by at least one researcher. All but one was conducted in person in the headquarters of each family firm; one took place by phone.

³ The businesses chosen were in at least their third generation and had a family CEO who was also an owner. We identified the respondent businesses with the help of the Smith Family Business Initiative at Cornell University, the Cox Family Enterprise Center at Kennesaw State University, the New York Family Business Center at LeMoyne College, the Loyola University Chicago Family Business Center, the St. Bonaventure University School of Business, and the St. Joseph University Haub School of Business.