SUCCESSION PROCESSES AND INSTITUTIONAL RECONFIGURATION IN FAMILY-OWNED COMPANIES[1]

In the life of each person, in his or her professional and personal facets, there is a sequence of stages to go through that can be exciting, especially if done intentionally: learn to do, know how to do, do, teach to do, let do and stop doing.

In family businesses, going through these six stages with an intelligent mind and heart strengthens the generational links, favors succession processes, increases the family's commitment to the future of the company and enables a better institutional configuration.

Institutional configuration is concerned with ensuring that the ownership structure and its governance and succession models, among other things, are conducive to the continuity and smooth running of the company. A generational change, more often than not, brings with it an opportunity for significant institutional reconfiguration.

The succession process in family businesses can be difficult due to the personality of the founders, but it can also be brilliant when the intelligence and generosity of those involved allow, for example, three generations to coexist reasonably harmoniously at different stages: the youngest learning to do, the second one teaching to do and the first one stopping to do.

When generational change becomes difficult, a deeper institutional reconfiguration may be necessary, such as the entry of new partners or the pruning of family branches.

Ideas to create brilliant succession processes in family businesses.
It is in the interest of society, i.e., the common good, to have more and better family businesses, as they are more humane, stable, have a long-term commitment and a great potential for integration.

[1] Technical Note of the Research Division of San Telmo Business School, Spain. Prepared by professor Luis Maria Huete of San Telmo Business School, for use in class, and not as an illustration of the proper or improper management of a given situation.

Family businesses tend to better integrate not only the people who work in them, but also the conflicting priorities of the business.

The company has a number of seemingly conflicting objectives, such as growth, profitability, commitment, reputation, etc.

The alternative to family businesses are companies in the hands of institutional investors, with financial, mechanical and short-term biases. Biases that would be fine if they did not push out, or pushed to the background, non-financial, organic and long-term issues.

As a general rule, companies work best when they have a stable, committed shareholder with a sense of purpose and a long-term vision. And in this respect, family-owned companies have a clear advantage.

All the better if, in addition, that shareholder is able to create a competent and cohesive management team whose main motivation is not necessarily the money they can earn for their work.

A management team and an ownership family function well not only when the individuals that compose them are "good" (professionally and on a human level), but above all when the relationships between them are "good". A relationship is better or worse depending on the respect, trust and mutual "care" between the parties that make up the "system".

Herein lies the greatness and misery of many family businesses. Greatness when succession processes are managed and good family ties are created that accelerate commitment and learning. Misery when in the owner family the relationships among its members are deteriorated by unhealed emotional wounds and these toxic emotions prevail over common sense.

The key to brilliant succession processes is to generate a healthy climate, emotionally and intellectually, between the different generations and branches of the family. The older generation, in collaboration with the rest, has to invest time, effort and dedication in managing the integration of the different generations and in designing a succession where the roles of learning to do, know how to do, do, teach how to do, let do and stop doing have specific dates, names and surnames.

A family business where the role of the generational links is well defined is in a better position to create a positive interdependence between the mechanical part of the business (fixed assets, information flows, processes, money, etc.) and the organic part (loyalties, alignment, commitment, reciprocity, culture, etc.).

The institutional configuration of companies, asset or nightmare?

A company's institutional setup can be its greatest asset or its worst nightmare. Asset when it adds tangible value. Nightmare when ownership becomes an obstacle to the company's development.

The institutional configuration aims to ensure that the ownership is adequate to face the future of the business. This is because it brings together the knowledge, contacts, financial resources, motivation and spirit that the company needs to grow in a healthy way. Otherwise, it is possible that the owners may become the greatest enemies of their own company.

Fortunately, being an owner usually goes hand in hand with the zeal and responsibility to make the business prosper and endure. However, within the universe of potential shareholders, there are those who do not prioritize the long-term continuity of the company for different reasons, some more justifiable than others.

The exit of historic families from the hard core of many companies' capital is paving the way for the entry of activist funds and other highly financial investors with an agenda in which sustainability considerations are secondary.

One of these groups are private equity funds, which also usually have a significant shareholding and whose business model consists of rotating the investment made in short cycles of between 5 and 7 years. Their business consists of selling the company for at least double the purchase price. To this end, have to make very effective short-term decisions that make the company "look good" before the sale.

In many cases, the effect of their decisions is positive for the shareholder. It is not uncommon for some of these decisions to be detrimental to other stakeholders or from a long-term perspective.

We are all children of the incentives of the environment in which we move and the incentives with which the managers of these financial institutions operate are linked to maximizing the value of the company in the short term through fundamentally financial, i.e. mechanical, metrics.

Another segment of owners who are not very focused on business continuity are activist funds and speculative investors. Activist funds look for companies with fragmented ownership and a board that they can enter and influence. When they succeed, they tend to push for "hard" decisions tied to short-term financial metrics. The story is similar to the case above.

A possible third group are family businesses whose owners do not take responsibility for ensuring the continuity of the company, either because they have inherited it, but do not feel it, or because they do not know how or do not want to be responsible shareholders.