

TWO TIPS AND A CHALLENGE

Every family in business has faced, or will face, challenging issues. Even when they seemingly do everything 'by the books', the challenges may seem overwhelming. **Jane Hilburt-Davis** offers two tips and a challenge for family firms

TIP 1: IMPLEMENTING PLANS

Plans are easy. In my work with family businesses, I estimate that 95% of the problems are not the result of not having plans but rather of not implementing them. Plans do no good sitting on a shelf or in a file drawer. The challenge is in the follow-through, the action steps. It's human to procrastinate. The founder, who resists stepping down, or the successor, who resists taking on more responsibilities, have each found a comfort level that is hard to leave.

One easy formula that helps to understand change is the Change Equation, $C = DVF > R$. This equation describes the forces at work in any kind of change, from deciding on a long-term business strategy to securing private financing. Change will occur when Dissatisfaction with the current situation, times clear Vision of the desired state, times understanding of the practical First steps to get there, are greater than the Resistance.

Dissatisfaction

How dissatisfied are we with the company's performance? How weak is the governance? How much are our mistakes costing us? How out of touch is the founding president? How much is the tension between son and daughter affecting employee morale? Dissatisfaction can be measured in numbers, data, benchmarking or in emotions, undercurrents of negative feelings that undermine the family's accountability, and trust. There are times when we wait until the situation gets worse before it is addressed.

Vision

This is the family's dream and goal for the future. In family businesses, this vision encompasses the family's values and sense of purpose. The V includes the development and articulation of the vision and

represents the shared vision of the family and owners.

First steps

What are the next steps we take to bring in independent board members? What are the very next steps we take to resolve the compensation issues of the next generation? These must be concrete with time lines and specifications of who does what and by when. The follow-up is critical, with check-ins along the way. Using an action planning worksheet, including the columns Task/Who/By When/How is a useful method for this step. The worksheets, which also encourage family members to be more accountable, are distributed and used as the plan is being implemented.

has been a hot topic in organisations. In fact, US companies spent \$4.5 billion on software and other technologies that claim to foster information sharing among employees. According to David Gilmour in a recent *Harvard Business Review* article, this is a failed effort. By the time the knowledge is published, it's often obsolete, and using it is like looking in the rearview mirror to see where we're going.

Knowledge is more than information and facts; it's the wisdom involved in using information. There are two types of knowledge: tacit or what we have in our heads, and explicit, what is documented. A tragic example of this was seen when the tsunami hit the coastal regions of Asia on December 26, 2004. Those with the tacit knowledge that

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Resistance

This is a normal reaction to any change process. It creates a procrastination and avoidance of what needs to be done. In human dynamics terms, the underlying fear that leads to resistance is often about giving up, losing control, or having to face events that are beyond our resources. It is one of the ways that we all have of protecting ourselves against real or imagined threats inherent in the change. Increasing the D, V, and F will reduce the resistance and encourage action.

TIP 2: HARVESTING AND TRANSFERRING KNOWLEDGE

A critical task of succession is harvesting and transferring the knowledge of the previous generations. Knowledge management

the sea receding is a telltale sign of a coming tsunami survived. Those who ran out to gather the exposed shells and fish on the sand perished. The explicit knowledge was in the system of sea-level monitoring and warning system that the countries around the Indian Ocean did not have.

Transferring explicit knowledge is not difficult. It's written and documented. Examples include employees' handbooks, shareholder agreements, and board policies. The process of tacit knowledge transfer is more challenging but family businesses have an edge. Tacit knowledge between generations is carried in stories around the dining room table, family history and values. Tacit information is stored in the neurons, deep in our brains. It is more than just communicating but is the sharing of stories of the business and the family, talking about what is

important and of value. To transmit tacit knowledge families in business can complement the informal ways with more formal procedures that are used in non-family organisations to prepare for the retirement of senior executives.

The steps involve executives going through a formal inquiry process. Tailored for family business succession, the process looks like this: the retiring senior is interviewed and asked questions about what he does and how he does it. It is recommended that someone is designated for this inquiry process, and looks out for the 'nuggets' of information. Questions should be informed by answering what knowledge will matter for the business' purpose and direction; where is that knowledge; and how can we facilitate that knowledge to transfer from

remain unrepresented in the top jobs and in the board room. Women and men are still compensated unequally – women earn 76 cents to every dollar earned by their male counterparts.

How are women in family business doing? Surveys from Mass Mutual Insurance and the Raymond Institute (2003) indicate that changes are occurring; the primogeniture rule which held firm for centuries is being challenged, although in 2003 fewer than 10% of all family businesses were lead by women. And, while more daughters are coming into the business, 34% of the founders said they would consider a female successor (up from 10% in 1998 and 12% in 2000). There still remains a gender imbalance in the board rooms of family-owned and non-family firms. In another interesting



Carly Fiorina: only female CEO in Dow Jones until ousted from her post in February.

IT IS IMPORTANT TO DISTINGUISH BETWEEN WHAT INFORMATION WORKED IN THE PAST AND WHAT IS OUTDATED

there to where it needs to go? The answers and observations are encoded, transcribed and used for the objective succession process. It is also important to know what information to keep and what is outdated – what has been useful in the past may not work now.

What knowledge is critical for the business's purpose and direction and for the family's legacy should be transferred and built on by the next generation.

A CHALLENGE: HAVE WE REALLY COME A LONG WAY?

When Lawrence H Summers, president of Harvard University, suggested that innate differences between the sexes may be one of the reasons for women's lagging progress in science and mathematics, he fanned another flame in the fire that's been burning for years. The debate continued as Carly Fiorina, the only female CEO at a company in the Dow Jones Industrial average, was forced out as Chairman and CEO of Hewlett-Packard Company. Although Fiorina's ousting was more likely the result of poor performance than her gender.

Interestingly, the statistics from the Center for Women's Business Research indicate that business ownership among women in the US is growing at nearly twice (17%) the rate of all businesses (9%) but women still

100-question survey of 1400 family businesses, the Center for Women's Leadership at Babson College indicated that female-owned family businesses had higher productivity over male-owned counterparts by a factor of almost two. Women-owned firms had less debt; more women than men wanted to keep the business in the family and were more likely to hire women and have boards with better 'gender balance'.

How are the leadership styles of men and women different? Women's ways of conceptualising and organising to do work are essentially different from men's. Women tend to have a keener understanding of relationship dynamics and are better at 'trusting their gut feelings', most likely a product of both nature and nurture. Women tend to put relationships before tasks, and are less hierarchical. Women are better at multi-tasking and men use more of a focused lens on their job.

Only a generation ago, founders without sons were inclined to sell their businesses rather than have their daughters own and/or run them. So, although times are changing, family businesses still have a long way to go to be 'gender neutral'. While the jury is still out regarding nature or nurture in the differences between the sexes, it is very clear that men and women's complementary skills are

both needed for success. There are a few steps that family businesses can take to take full advantage of the complimentary skills needed for success. Be proactive; take the time and care to have gender-balance in the board and the top executive positions. Continue to build a meritocracy based, not gender-based business. Establish fair, equitable pay/compensation and formal pay guidelines. Remember that job descriptions and formal titles are important. Women, more often than men in family businesses, don't have either, although they work very hard. It is important to see this as a diversity issue. It is not just about women, but about an untapped resource for the entire business.

Making use of the change equation and knowledge transfer tips will help families in business to weather the storms of change. When they take up the challenge of seeing the gender issue as one of diversity and human resources, they will also be more capable of growing the business and developing a family legacy. ■

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