ACE Research Vignette: Family business succession - When death takes a hand

This series of research vignettes is aimed at sharing current and interesting research findings from our team of international Entrepreneurship researchers. In this vignette, Dr. Mervyn Morris considers the impact on family business operations due to the sudden and unexpected death of a key family member.

Background and Research Question

Family business dominates the economic activity of the majority of countries. Often family businesses are conceived of in terms of generations, from start-ups to families able to trace their beginnings back for centuries. One issue which is common across time and space is the question of succession: that is who will succeed the current family members occupying managerial roles?

There is much known about succession and family business. Key findings are:

- More than 50 percent of family businesses all agree succession is important, yet do virtually nothing about it
- The lack of successors can result in the business being removed from the control or ownership of the family
- Those who are succeeded are often the greatest barrier to successful succession plans
- Succession processes can cause considerable conflict within families with more than one generation involved in the running of the business
- The emotional links between and among families can be both a competitive advantage and a source of extensive conflict

The purpose of this research was to examine the impact on business operations due to the sudden and unexpected death of a key family member.

How this was investigated

Three companies in two different industries were found where a key member of the family business had suddenly and unexpectedly died; one due to a road accident the second due to a sudden heart attack. The first was Peter R Brown, killed in a motorcycle accident and part of Brown Brothers and his own family company Peter R Brown Family Winery. The second was John Ilhan, who died from a heart attack, and was the founder and CEO of Crazy John’s – a telecommunications company. Material was collected through one on one interviews with surviving family/business members and through press reports.

What was found

It was found that there was a relationship between the age of the business; the role of the deceased family member; the involvement of outside managers/advisors; and the nature of the business relationship between the family members. The death of Peter R Brown had no significant impact upon the operations of Brown Brothers. This family business had been established in 1869 and had developed to such an extent that family members were mainly (but not exclusively) involved at the Board level. This was not the case with his other company, the Peter R Brown Family Winery. It had only been established in 1996 and Peter R Brown was a central part of the operations of this company at the time of his death. His adult aged children basically had no idea about the financial operations of the company, nor some of the agreements their father had entered into. Had it not been for the knowledge and trust of an independent financial advisor, the Peter R Brown Family Winery may have had to fold, simply because the founder had not kept his kids apprised of all aspects of the operations of the company.

The widow of Crazy John’s was able to keep the business running for 10 months after his sudden death. She then sold the business for a reported $300 million due mainly to two reasons. First, the competing pressures of being both a mother (they had three children, all under 5) and a business woman was becoming simply too much, especially in such a dynamic industry as telecommunications. The second reason was again family driven – Ms Ilhan wanted the safety and security selling the company would give her and her kids. Apart from Ms Ilhan there was no specific succession plan in place.

Business and Policy Advice

Family business owners need to recognize their own (and others) mortality and plan accordingly. Succession planning is just as relevant (and maybe more so) than estate planning. Depending upon the nature of relationships, family members should be regularly updated with the operations of the business, either formally (family council) or informally (family social events) so that if there is a sudden and unexpected death then the impact on the business may be minimized.
Consideration need to be given to the active involvement in the business operations of experts from outside the family. They are able to bring a different perspective and to also offer a good chance of business continuity if there is a sudden and unexpected trigger event (such as death).

A key element in all these efforts is the nature of the relationship/s between the family/ies and the business and at what stage of development the business is at. Incorporating these elements into the succession planning process outlined in Figure 1 can assist in a relatively smooth transition from one family member (or generation) to another.

**Figure 1**

**Integrative Model For Successful FOB Successions**

- **INDUSTRY CONTEXT** (Competitive structure, regulation ...)
- **FOB CONTEXT**
  - board of directors (composition, frequency)
  - strategy (strategic planning)
  - previous succession experiences
  - Organizational culture & design
  - Personalized business processes, structures, & policies
  - FOB/Non-FOB ownership (controlling owner, subordinating partnership, cousin consortium)
- **SUCCESSOR** (qualitative relationship with incumbent, motivation, management ability, competences...)
- **INCUMBENT** (quality relationship with successor, motivates willingness, personality, needs...)
- **SUCCESSION PROCESS** (management & ownership)
  - Ground rules & 1st steps
  - Setting the criteria for succession process
  - Nurture/development of successor(s)
  - Developing programs for potential
  - Selection
  - Who gets the job and relationship to
  - Hand-off/transition
  - Process/Installation
  - Setting the criteria to succession process
  - Transfer of capital
  - Setting the criteria to succession
  - Performance/Evaluation—Feedback (monitoring the process)
- **FAMILY CONTEXT**
  - Nature and type of family relationships
- **SOCIAL CONTEXT**
  - (Culture, norms, ethics, religion, laws...)

*Source: Le Breton et al (2004)*

This research vignette was written by: Dr Mervyn Morris, Lecturer, QUT Business School, School of Management [http://staff.qut.edu.au/staff/morrismj/](http://staff.qut.edu.au/staff/morrismj/)

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