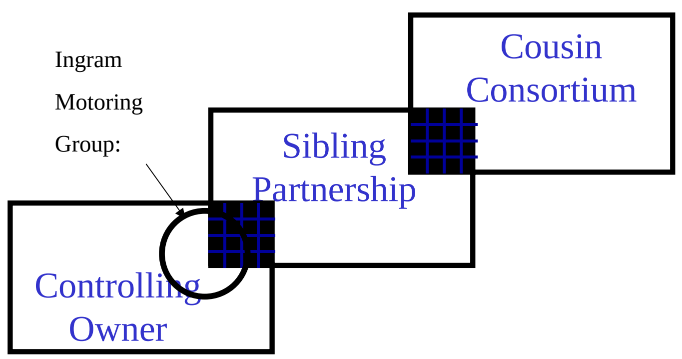
Staying Entrepreneurial During The Transition Process:
A Case Study of the Transition From Controlling Owners to Sibling Partnership
Barbara Murray, Ph.D

Here is an opportunity to learn from the experience of a business-owning family and to gain an insight into their family business system. The owners are currently dealing with a major family task and a major business task at the same time: they are significantly growing their family enterprise AND dealing with the transition of the ownership and leadership of the business to the next generation.

As in the case in all family businesses at this stage in their evolution, the business, as one of the subsystems that make up the "family business system", has to be taken care of while the family and ownership sub-systems goes through what amounts to a major emotional and structural overhaul. The case was chosen to illustrate that some of the challenges that business families face when they find themselves in transition are generic, even though the commercial challenges within the business subsystem can be very different indeed. Regardless, the whole family business system has to shift itself from one ownership and family structure to another, whilst dealing with reality of remaining viable and successful as a business entity.

This is the first succession in the history of this family business, so everyone is dealing with major issues with no prior experience to use as signposts to help the direction of their journey. Ownership and control of the businesses are being transferred from parent-founders to their offspring: the next-generation siblings (see Figure One). During these types of transitions, siblings have to learn how to share the power, control and wealth generated by the business. The Ingram family was willing to share its experience at the Conference and to offer certain lessons to the other business-owning families attending the conference. This article highlights the lessons that

Figure One: Ingram Motoring Group:
Their Stage in the Succession Process



professional advisers dealing with clients in similar situations may take from the case study.

<u>Case Study Ingram Motoring Group</u>
<u>Getting to £40m+ and starting to think about succession to siblings.</u>
<u>Established in 1974. Sales £40m+ Car Dealership: VW and Audi Franchises</u>

When Alex Ingram and his wife Jean started in the motor trade in 1974, each was continuing the family tradition of creating a life for your family through your own hard work. Twenty six years later, he and Jean are recognising that they may have created something that was never part of the original plan: a family business. As the prospect of retirement brings the thought of undertaking personal and business transitions more and more into their everyday thoughts, they are beginning to think about how they arrived at their present stage, and what to do next?

Jean has her own business interests, but she is a part owner and non-working director of the family business. Susan and Malcolm, two of Alex's and Jean's three adult children work in the business and may take on the ownership of the business in the future if the succession continues to evolve as it is appears to be doing so at present. Their eldest child, Alison, has her own business and is unlikely to participate in the family business now or in the future. Now in their 50s,

Alex and Jean are beginning to question whether and how to pass it on to the siblings who work together? How should they plan the continuity of leadership of the business after Alex retires and someone else takes over the reins? What do the siblings want to happen? Asking such profound questions has caused them to reflect on being an entrepreneurial family, the lessons they learnt along the way, and the influence of professional advisers along the various stages in their journey.

Ownership and Control: The Special Case of the Franchise:
Ingram Motoring Group has the VW and Audi franchise in Paisley and Ayr, two major towns on the outskirts of Glasgow, UK. Their business is largely dictated by the car manufacturers who tell them what to do in order to sell more cars – sometimes with very difficult consequences for the family who have invested in the business. A franchise is a strange animal: one the one hand, the family does ***own*** its business and is technically in charge of its own destiny. But on the other hand, when the franchisor is so powerful, it literally ***controls*** almost all of the decision making needed for the growth of the business. Under these conditions, owners have to rely on using their own brand of family and management culture and style to gain satisfaction from working in their own business, and to differentiate themselves from other franchisees. When it comes to the matter of succession, whether to pass on this strange mix of owner-stakeholder relations to the next generation? - and whether they would want to take it on? – are big questions that demand a lot of forethought and discussion.

Looking back at the family and business milestones since the launch of the business in 1974, it became evident that there were times when the family's way of doing things strengthened the business, and that the fruits of these earlier efforts are being enjoyed even more today. There were other times, however, when the family's way of doing things led to costly mistakes that needed considerable back peddling. Firm resolutions were made not to go down that line again.

Family and Business Life: As a Young Business Family:
The challenge of being a "Young Business Family" (a couple with young children as well as a fledgling business to provide for) is an immense one, as the couple have to struggle with important but simultaneous challenges in their developing work and personal relationships. These are: how to let their own relationship evolve as it meets the challenges of balancing two careers, providing good parenting to a young family, and finding the time, leadership and money that a growing business needs to flourish. One way or another, the Ingrams almost always found a way of having lunch together when the children were at school. They never missed a sports day, a recitation, a school play or the report evening. Business was in their blood, and the children came to know that they were loved, and there was a business to run. This translated into some firm groundrules when each sibling entered the business:

- no favours;

- start at the bottom;
- earn your own respect;
- don't expect it to be easy.

Lee Iacocca, CEO of Crysler wrote that he never missed a school or family event: although he could recall every school play, and report evenings, he could not remember when or where "important" business meetings took place over the years.[1]

The Ingrams' groundrules were reinforced when the children became adults. During their early years in the business, family and work tensions for the adult children, especially those that were to do with non-family managers, were teased out on Sunday evenings. One groundrule never changed: we have a business to run, but we support you with your difficult task.

The siblings have now been in the business for 15-18 years and there is no doubt that they have developed into managers who have earned their own stripes. Whether they become directors is still under question. The business environment is best described as a competitive war zone at present, and Alex believes that the family business needs the best board and senior management that it can create to deal with this. It does not follow that his adult children will be on that board.

Family and Business Life: Entering the Business and Working Together:
When family members Enter The Business, new dynamics come into play that bring about reactions from others in the system. For example, when Alex agreed to employ his son in law, he thought it made a lot of sense to have another loyal family member in the team. However, in-laws bring a different outlook on the world, since they are brought up in a different family, often without the history of business attachment. It soon became clear, in this case, that there was a cultural and a style problem, and that something had to be done about it. It was an expensive lesson, but paying for the in-law to go elsewhere preserved the positive aspects of the family culture in the business, and avoided the scenario of family troubles being aired in the workplace. In this example, the family way of doing things mitigated the problem it caused.

Pressures to Dilute Ownership to Finance Growth
The economic reality of being the franchisee of two global brands inevitably leads to the owners feeling somewhat disempowered when dealing with such a major stakeholder in the business. In the motor trade, when the manufacturers want to see each brand-marque operating from separate buildings, you can find yourself learning how to be in the property business as well as surviving in the car sales business. In 1990, Alex and Jean were put under considerable pressure to dilute their ownership in order to pay for expansion and property development. This further diluted the satisfaction they had enjoyed from being in business for themselves, because there were now other investors to deal with in addition to dictatorial manufacturers. After five difficult years, they realised that the investors in their case had brought more problems than solutions to the table, and decided to regain total family ownership of the business. Now that succession to the next generation is coming in to sharp focus, they are pleased to be rid of further complications in their ownership succession planning.

The Sudden Loss of a Friend and Most Trusted Adviser:
Although the family's way of doing things has taken them in various directions, sometimes fate intervenes and takes the system in a new direction. In 1992, Alex's closest business adviser and personal friend was tragically killed. Alex lost a strong ally in many senses, and it took a long time to recover from this. Entrepreneurs rely on strong networks to support the speed and quality of their decision-making, and can usually get through to people in the business world to ask their opinions very quickly. When a friend, who has a pivotal role in the family and business structure is no longer available it upsets the entrepreneur personally as well as in the business, and it takes time to work out how to do things and who else to ask for help and advice. For Alex, the death of his friend and adviser led him into a convoluted journey, involving some time-consuming blind alleys, to find someone who understood family business. He finally gave up on the idea of a large

“big 6” practice and found someone who had left such a practice, and who was willing to spend time learning the business and getting to know the importance of the family ownership dimension.

Family and Business Life: Important Reflections Whilst Preparing to Pass The Baton:
As a family business who has undergone fast and significant growth (set in the context of the Scottish Economy), these are the lessons that Alex would like other family business owners and leaders to know about as they embark on succession against the backdrop of fast growth in a difficult industry.

- Make time for your family.
- Teach them well a parents in the family as well as their managers in the business: no silver spoon; stand on your own feet; remember you are loved and supported as you sort out your own problems.
- Continuity of entrepreneurial behaviour is the goal. Management, including directorship, is therefore a meritocracy.
- Think before offering jobs to family members, especially in-laws
- Don’t dilute family ownership. If it is unavoidable, get it back whenever you can.

Key Issues for Professional Advisers:
The Ingrams’ experiences provide us with fertile ground for reflection on how we should approach clients at a similar stage in their family business evolution. It also encourages us to think, well in advance of clients reaching this stage in their transition journey, about what we should be doing and saying years before the client becomes aware that ageing is the driving force for succession action. The following points can be grouped under the headings of Ownership and Family-in-Business issues:

1. Alex and his wife felt they had been carried along by others’ wishes to dilute the ownership of the business. When this happened, they experienced their most stressful years.

   Families in business are usually reluctant to use their ownership as a means of raising capital, and can be unclear about other alternatives because of the pressure put on them to make decisions at the time that more cash is needed.

   Advisers have to pay very close attention to what the shareholders actually want, and investing time exploring this before laying out the technical vehicles for raising funds.

2. No decisions have been made regarding whether and how the ownership of the business will be transferred to the offspring. Alex and Jean are likely to be giving this matter more and more thought as they realise that they are ageing, and are being pressed for decisions by advisers who are keen to help with tax planning. Family members and employees will be keen to know what is going to happen too.

   This point, and the point above highlights the need for each business family to have a Constitution setting out the family’s wishes and policies for ownership of the business. Will it go to working owners only, or to family members as part of the “fair” division of assets in the parents’ estate?

   Rather than advise on a certain ownership transfer route, advisers could point out how critical it is that, prior to taking specific recommendations or taking instructions from the client, first of all the family should work with a facilitator to clarify everyone’s hopes and expectations for the future. This would establish the views of all concerned about ownership transfer. A policy for this should be created and re-visited annually to see how well it is serving the needs of the system.

The Family-In-Business Issues:

1. The Ingrams knew instinctively that their adult children would have to earn their stripes and that there were no short cuts to seniority – meritocracy was the policy.

   There is overwhelming evidence to support this approach, as well supporting the need for the next generation to get outside experience before joining the business. But many young people join the family firm *because* the process of getting a job elsewhere was just too slow. Once they are in the family business, they tend not to leave.

   When this is the case, advisers should encourage clients to use exchanges or sabbaticals to broaden the experience of successors. Young people need to "become their own man \ woman" independent of the family and business they grew up in as part of their adult psychosocial development.

   The family should be encouraged to establish a policy for these developmental processes as soon as possible. Encourage them to do so and suggest they contact the Centre for Family Enterprise and the Family Business Network[2] to get information about exchanges and sabbaticals between family firms.

2. The Ingrams have the ability to talk together and work things out. Not all families can do this, especially if some tough feedback is needed.

   When this is the case, encourage your clients to use a trusted, neutral outside person, (someone who is familiar, comfortable and preferably qualified to manage family dynamics) to facilitate the conversations until such times as the family feels able to do it alone. Left unattended, the inability to talk about issues arising and to work to a resolution is likely to lead to immovable blockages in the family. Rest assured that these will spill over into business.

   If you see symptoms of this, be unfailing in your persistance and your encouragement of them *not* to let it progress or take hold in their system.

3. As mentioned above, continued family ownership is the aim, but it is clear that Directorships are not assured for family members in the future. It would appear that ownership is a family decision and directorship is a business decision.

   We often see in our practice that family business owners conceptualise family ownership and directorship as if they were the same thing. Often, both are given as gifts or gestures, setting an early precedent and expectations for a potential ownership and board structure that will take over when the senior generation will no longer be in control.

   Advisers can achieve two objectives at the same time if they consider offering the following service to the family business clients early enough. The first objective is to establish adult – adult business relations with the next generation family members – the clients of the future - and the second objective is to provide information that will lead to the development of informed, responsible shareholders.

   Next generation family business members usually have no information on what ownership and directorship will mean for them and what it will require of them personally, for their family and for their business. They need legal and practical guidance. Advisers should contact the Centre for Family Enterprise to get more information on this point, and in so doing, point out to the current and future generation family business client that you are demonstrating the need for planning for their future responsibilities and for the continuity of your business services in the future. (Please refer to the article by Justine Strong on the challenges of succession, continuity with clients and the transfer of power from senior to junior partners and associates in professional firms).

Conclusion

The Ingram case provides us with a lot of material for reflection on how we can address the needs of clients who have fast growing businesses, (in this case with the added complication of the franchise issues around ownership and strategic control), and where the business family is starting to work seriously on Passing The Baton.

In such cases, the best advice that the business family can be given is to begin the process of creating a Family Business Constitution: a document signed by all in the family and the senior members of the business who will be affected by the creation of family-derived policies for employment, for jobs, compensation, equity, and dividend policies. All of these are guided by the mission of the family members (encompassing their expectations as shareholders) who will own and run the business in the future.

The creation of such a document is not a quick process as it relies on there being the willingness to commit the time, and the ability to do the talking through of issues where there will naturally be conflicting self-interests. Advisers should recommend, therefore, in the strongest possible terms, that the family use an appropriate facilitator to help with these conversations so that the process is managed for them, so that the participants can immerse themselves in the process without worrying about who is chairing the meetings and what will happen if things get tense?