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SCOTTISH FAMILY BUSINESS ASSOCIATION

Helping Business Families Flourish

Generations Working Together

The Scottish Centre for Intergenerational Practice

Voices from the Family Business

Connecting Generations – All in the Business Together

Acknowledgements

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- Claire Seaman, Queen Margaret University who co-convened these events and co-authored this report.
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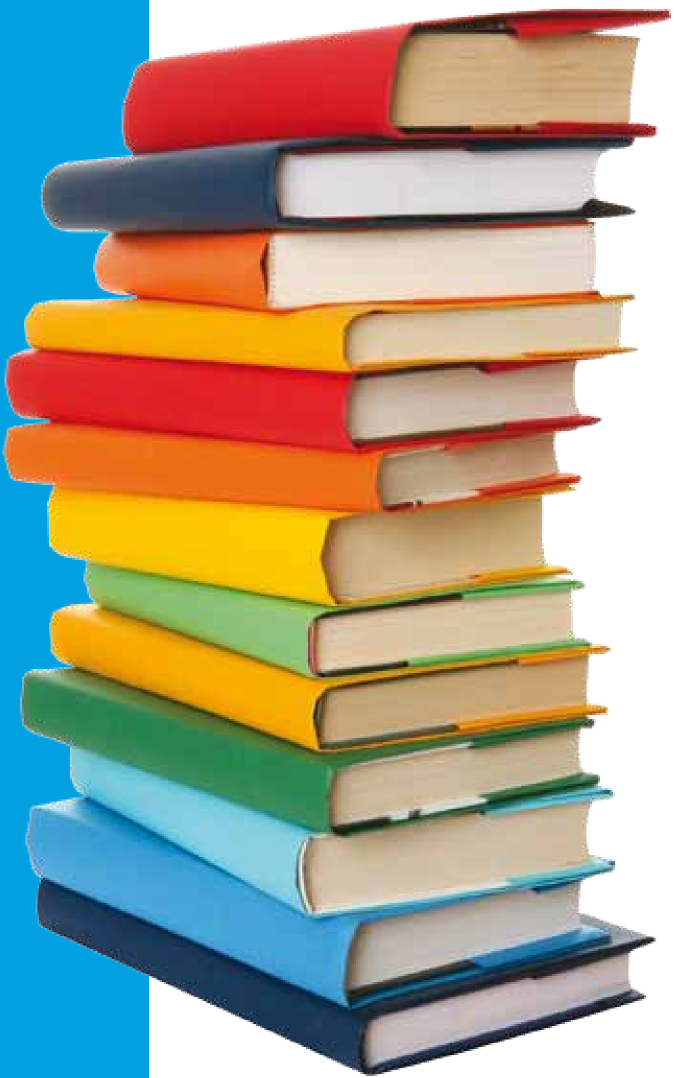
Voices from the Family Business
Connecting Generations- All in the Business Together?

The Scottish Centre for Intergenerational Practice is supported by the Scottish Government and works with public, private and voluntary sector organisations, as well as individuals and families, to gather and share best practice, provide information and support, and develop new opportunities for intergenerational working in communities.

The Scottish Family Business Association was incorporated in September 2005 and is a non profit-making organisation run for and by business families. 73% of family businesses want to keep the business in family hands from one generation to another yet only 33% make it to the second generation and 9% to the third - cumulatively a massive loss to the economy, to local communities and to national progress. The SFBA aim to ensure that family businesses and business families can get access to the support, education, training and professional advice specific to their distinctive model of business, to help them to realise their full potential for the benefit of the economy and communities of Scotland and beyond.



Introduction
Connecting Generations – All in the Business Together?

In 2009, the Scottish Family Business Association and the Scottish Centre for Intergenerational Practice joined forces to develop a series of intergenerational workshops for families in business together across Scotland. The intergenerational workshops were developed with the primary aim of supporting families in business across Scotland, with the additional aim of gathering the experience of those who attended the workshops to help develop better support networks in the future.

A wide variety of businesses and business advisors took part; notably, the workshops attracted family business leaders from different generations, advisors who specialise in the strategic development of businesses, academics interested in family businesses, and of course the Scottish Centre for Intergenerational Practice itself.

This report has been compiled by those involved to record what was attempted, what happened and the lessons learned. The lessons for Scotland's families in business are vital, but the experiences are of import to a much wider audience. Politicians, policy makers, business support professionals and academics all have a role to play in making sure the lessons for Scotland's family businesses are heard and acted upon. It is hoped that this report will play a part in that process.

Generations of the same family working together

The Challenges

Within the workshops a number of key themes were identified, notably:

- Generations of the same family working together
- Passing the baton to the next generation
- Pay, benefits and incentives

The questions that arose, though, were about the practical solutions different families have found useful in addressing these topics. All families share emotions and families in business are no exception. The successes, challenges and surprises of successful family businesses come from learning to manage those emotions and the businesses themselves into some sort of harmony. Finding ways to meet the needs – emotional, financial and practical – form the area where the experiences of families in business may most usefully be shared.

Harnessing the Collective Experience

The experiences of families in business who found ways to develop strategic approaches to harmony and fulfilment in the family business were many and diverse. Experiences of the participants included:

Generations of the Same Family Working Together

Problems, Opportunities, Solutions...

Case Study 1

Family 1 opened a shop incorporating a bakery, in a Scottish town in 1872. They had 7 children, 3 of whom worked in the business. The girl and one of the boys both passed away very young, one through illness and the other in combat in Italy. The surviving son returned to the family business, after 5 years as a POW, with his father, uncle and aunt and latterly a cousin. He married and had two daughters, one of whom was adopted. Feeling he had no successor, he invited his son-in-law to join the business.

The key challenges this company faced were a mismatch of the skill set of the family members involved with what was required to support a growing business in a changing market, and the balance of power between the older generation with voting rights, and the next generation who were running the business.

If the underlying purpose of the business was to provide employment for the family, then the lack of skills is an extremely difficult problem to address, particularly for an in law. Getting the right skills in would have required demotion/ sacking of family and bringing in external management.

The older generation were resistant to any change and unwilling to rock the family boat. Sacking any family members would have led to a major rift, and, they wouldn't contemplate external management to gain the required skills. Fundamentally, they believed external managers would insist on shares as part of a package, and this was something they were entirely unwilling to contemplate.

Less damaging, but still debilitating, was the father's "role" in the business after age 65 – the point at which he said he was retiring. With no communication on this issue, his belief was that retirement simply meant drawing his pension. It didn't mean not coming to work which he continued to do for a further 15 years, still drawing a salary despite having no management role.

Consequently, he would raise minor issues that concerned him with key Management daily, using up valuable time. He also assumed the role of Chairman but without clear experience of being a Chairman or indeed working on a board.

His relationship with his son-in-law was confrontational, and he tabled objections to most decisions, before he would agree that it was his son-in-law's decision.

With these complications, the company stagnated for 10 years as a paralysis descended over the decision making. Without the skills to separate ownership from management, recognise the time commitment and necessity to transfer power, recognise the importance of creating an effective Board to enable decision making, or the appointment of a management team with the skills to do the job, the company was doomed.

Case Study 2

Business 2 was established 30 years ago and specialises in the supply of bespoke crystal, mainly to the corporate market and is recognised as the UK's leading source for decorated crystal and glassware. The company supplies every whisky company in UK, Ireland, most of USA and others. The remaining portfolio of customers comes from a wide diversity of sectors from sports clubs, local authorities and major blue chip companies such as Cunard and Rolls Royce.

The business is based in East Kilbride and is run by the three sons of the original founder. Each of the sons has helped in the factory from school days then went on either to work briefly elsewhere or study at university or college.

Perhaps key to the success of family 2, is the clarity with which they have defined the roles of each of the family members involved, including the founder, to ensure a smooth intergenerational transfer. Also key is the recognition by the founder that his company is in good hands as his three sons have sought relevant experience and qualifications elsewhere before returning to the family business. He is therefore comfortable with taking a back seat in terms of the operational running of the company.

Although major decisions are discussed by all, it was decided that for good general stewardship, son X having a more thrifty and cautious approach to business, should be managing director. He is also seen as the senior salesperson.

Son Y is the expert on product development. He compiles essential reports and strategies for discussion between the family and advisors, having a degree in IT, he is also responsible for the company's computer systems.

Son Z, at 25, is the youngest member of the family and is responsible for the website business and the more general whisky business. Having previously managed off-licensed premises, he has attended many courses in the drinks industry, resulting in WSET certification and recognition within the whisky industry as a "nose". Son Z is being groomed to follow son X's role to a degree.

The founder has allocated equal shares to his sons and now spends most of his time attending corporate events where many clients gather. The family believe that warm relationships with both clients and suppliers are essential and each member nurtures and cultivates this.

Passing the Baton to the Next Generation Problem, Opportunities, Solution …

Case Study 3

The Background

Having originally trained as a corporate lawyer and then gained an MBA in Australia, the successor in the third family business returned to Scotland to take control of the family firm in 1996. Founded in 1925 by his grandfather the business specialises in fitout, housing and maintenance.

Since his arrival, he has guided the company through a period of rapid growth, with sales in 2009 of £100m. The Company has three depots Glasgow, Edinburgh and Warrington. In addition, establishing key relationships with blue chip clients is crucial to the development of the company. The business currently has relationships with Lloyds Banking Group, Primark, Barclays, GHA, Marks and Spencer, RBOS and Tesco.

The Story

When I joined the business my experience was in law and general management. I had no experience in construction and my entry into the firm was firing the last MD. Not a recommended changeover strategy!

So although I had to take day to day charge I was from day 1 looking for someone to takeover that responsibility. In those days I thought that many of the people did not know as much as me. I wanted to get to a point where the people I employed knew a lot more than me. That has always been my philosophy. To employ the best people I could afford. I have not changed my mind over that strategy. Always trying to get to a situation where it would carry on if I was not here. I do feel that I am in that situation today and it has largely been a successful move.

Generationally that continues my Father's work. He had a heart attack at 47 and relinquished a lot of control. Too much in my opinion. It is a question of balance.

You do give away some control but you make up for it in creating an environment of meritocracy. Our Board has only two family members and they (non family Execs) are clear they run the business but we do have two non-execs who the Board reports to once a month. They are very supportive but always there.

The downside is you lose some control. You cannot help losing control and of course that is difficult but that is business and life. You cannot be in control of everything.

Summary and further resources

Pay, Benefits and Incentives

Problems, Opportunities, Solutions …

Case Study 4

Our family view on pay, benefits and incentives, was typical in a family business. Essentially the family's policy was to start from a basis of equal pay for family employees regardless of position, always of course with the exception of the Managing Director. With this status came higher income especially so when the MD was our father.

As the business grew levels of management started to create distinct differences in responsibility and strategic importance. Pressure grew to change the previous pay structure for family members. Internally those family members who attained higher positions came under pressure from their spouses to ask for higher pay. Externally, constant reports of huge increases in directors' salaries influenced family members in senior roles.

Family members who were in middle or lower management sought to retain the more egalitarian pay structure despite the fact that their own salaries continued to rise. It reminded me of an old Russian story. A fairy appeared to a poor farmer who had only one cow. His neighbour was also poor, having only two cows. The fairy told the first farmer he could have anything he wanted; he had only to ask. The old farm said "I wish one of my neighbour's cows would die". It seems we are programmed not to like others getting ahead of us.

Eventually market forces on pay forced their way into the business as we recruited more non-family senior managers for whom certain salaries were a given. As these new managers' salaries became the norm, family salaries started to reflect this hierarchical pay structure. Some family member's salaries grew dramatically, others declined, in one case not only relatively but absolutely. Although this mirrored the market it destroyed family unity and was one of the complex web of factors that led to the company eventually going out of business. With more inter-generational clarity and discussion much of this enmity and conflict could have been avoided.

The Benefits and the Lessons Learned From the Workshops:

The value of talking to other families in business is really part of a wider debate about how family businesses go forward and here, again, the voices of individual families in business have much to contribute:

'There's a choice as a member of a business-owning family – do you become risk-averse, or do you give your life dreams a shot by getting out of the family business and become yourself.'

'During recessions families work harder, and use their past experience of challenging times to weather the storms.'

'I now wouldn't let the family into the business; there's no longer the rewards for the risk.'

One consistent theme shines through here – the relative value of talking to other families in business as a source of informal advice. The question that arises is how that process can be made to happen more effectively, encapsulated in the questions:

'How do we get the message across (to government and the public) of the reality of business?'

'Government need to give reward for risk otherwise we'll all stultify.'

'Politicians are not running businesses therefore I won't invest because they don't know how to help me; instead they block my efforts'

Many of these apparently negative comments offer clues to the road forward – the most credible comment and support comes from other families in business. Finding better ways to facilitate conversations between individuals who can share their experiences in family businesses is one key – and it may be that community informatics have a role to play here.

Looking at the ways in which the conversations between family businesses can best be taken forward in the future is the next stage – and the SFBA would be pleased to hear from individuals or family groups who would like to be part of the process.

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You can receive regular updates from the Scottish Centre for Intergenerational Practice by joining the Scottish Intergenerational Network. Joining the Network is free, and you will receive the regular Newsletter, information on funding, meetings, new publications and updates on research and examples of best practice.

To join, simply email or write to Brian McKechnie with details of your name, organisation and address.

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