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And when you finally reach the top...

What's a new CEO's biggest headache? Hint: It isn't employees, suppliers or competitors.

By Ivan Lansberg

When a company's succession process is well planned and implemented, successor candidates rise to the top job through demonstrated competence on strategic and operational matters. By this time, seasoned successors know how to motivate, organize and monitor their subordinates. And they know how to cope with their suppliers and competitors. But even in the best of cases, when successors reach the top they quickly realize that little about their training prepares them to manage another group to whom they are now accountable—namely, the shareholders.

It doesn't take long before it dawns on successors that their capacity to lead the family enterprise will depend as much on their ability to gain the trust, commitment and cohesion of the shareholders as it does on whether they can deliver on the business fundamentals. This is particularly the case in complex family companies in which the stock and control has been divided among a group of siblings or cousins, thus curtailing the successor's capacity to unilaterally impose his or her will over governance decisions. In these situations, the successor is typically one of a group of owners who together must make such fundamental decisions as allocating resources, developing a dividend policy and staffing and managing boards, as well as deciding whether to sell or continue the family enterprise.

Many successors, accustomed to wielding their influence in the company's hierarchical structure, find themselves at a loss when they realize that their success in the business doesn't assure them a comparable degree of influence among their shareholder peers. In many situations, the reverse is actually the case—at least, at the front end of their tenure, when leftover rivalry and resentment from the successor's victory in the company hasn't yet dissipated.

It's certainly not unusual at this juncture for disgruntled shareholders to go out of their way to put the new leader in his place and to show him unequivocally who's ultimately in charge.

Indeed, a conflict with a shareholder often marks the end of a successor's honeymoon period as a newly anointed leader. How the successor handles such conflict sends an important early signal about his or her readiness to address the needs and concerns of this critical constituency.

Figuring out how to read and anticipate shareholders' needs and concerns can help newly installed successors to establish their credibility as leaders. What, then, do shareholders want?

The first thing shareholders will look for in a new successor is *respect*. Succession transitions often coincide with fundamental changes in the family hierarchy's deeper structure. This change forces successors to learn early in their tenure that influence can no longer be exercised autocratically, as it may have been during the iron-handed reign of their predecessors.

The problem, of course, is that it's no simple task for a successor to free herself from the authority model established by the strong (and often highly successful) former leader. In their eagerness to prove their mettle, many successors are tempted (and even expected by the old guard) to resort to old behavior patterns. But these attempts almost invariably backfire among shareholders who are eager to be taken seriously and respectfully by the incoming leadership. Above all, shareholders want to be *heard*.

Second, shareholders want a certain degree of *predictability* in the company's economic results. In many family businesses, a shareholder's lifestyle depends on the company's capacity to yield dependable dividends. More important, shareholders will quickly test the newly anointed successor's willingness to accept the notion that since they share in the risk, they legitimately deserve a return. Needless to say, successors who look upon dividends as charity quickly get into trouble with shareholders eager to hold management accountable for results. In fact, a successor's very willingness to be held accountable for performance levels is one of the key variables shareholders gauge to assess the successor's leadership and competence.

Shareholders also want *transparency* and *procedural justice* in the company's decision-making process. They want to understand the underlying logic of how decisions are made—especially with decisions that affect how opportunities and resources are allocated among shareholders (in and out of management).

Shareholders also want to understand the rationale for determining which decisions they have a right to influence and which belong solely to those in management. But in many family enterprises, a more open approach to governance constitutes a major departure from the more secretive style of management that often characterizes the old guard.

Newly anointed successors would be well advised to approach this critical constituency with openness, humility and empathy. Above all, successors must recognize that sustaining the cohesion among shareholders and their commitment to the family enterprise doesn't "just happen"—it must be carefully orchestrated and managed.

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