Family businesses need to understand that succession is a process and not an event.
new kids on the block

In this second part of our family business series, we take a look at Vietri, America’s largest company selling fine Italian tableware. The metaphor of beautiful, fragile crockery is rather apt in the context of family-owned businesses, which can be destroyed in the blink of an eye unless there is an abiding commitment to handling it with care—across generations. Yes, we are talking succession planning, still the Achilles’ heel of several painstakingly built enterprises.

At Vietri, America’s largest wholesaler of handcrafted Italian tableware and home décor products, succession has been an evolving process. Founder and CEO Susan Gravely and her sister Frances, the two primary shareholders in the 29-year-old business, turned to the husband of a cousin as a possible successor when they found themselves without a blood relative interested in carrying on the business as they began looking toward retirement. But that arrangement didn’t pan out, and now the company has put into place a 10-year succession plan to groom Lee Frankstone, Frances’ son, to take the helm of the company. [Frankstone was initially reluctant, but more on that later.]
Succession is often cited as the most critical family business issue.

Vietri found the right fit for its management through a measured and thorough succession planning process, and is well positioned for the second generation to take over. But for many family-owned businesses, this is not the case. Planning for succession and putting into place a next-generation leader is one of the most daunting tasks a family business can face. In fact, only 30% of family businesses survive from the first to the second generation of family ownership, only 12% survive from the second generation to the third, and only 4% survive from the third generation to the fourth.¹

So why do so many family businesses fail to become multi-generational family enterprises? Succession is often cited as the most critical family business issue.²

Bakr Ibrahim, professor of management at Concordia University’s John Molson School of Business, says, “Most family businesses will collapse by the third generation of ownership, mainly because of the succession problem.” Ask any family business owner what worries them most and succession will often be the first thing that comes to mind. At the first Southeast Family Office Forum held at Kennesaw State University in September 2011, family business owners were asked in a workshop to identify the issue that most concerned them. Succession was far and away the most common response.

prepping up

Leadership development and succession planning is critical to family business continuity; yet planning for succession is often ignored or put off by family firms.³ By the time many family business leaders begin to think about succession, they are already ‘in the ditch.’ The time has come and they find themselves unprepared, which limits their alternatives.

One reason for Vietri’s success has been finding a successor who has a passion for the family business. The original non-family member identified as a successor didn’t have the affinity for the company that the sisters were seeking. “I was dragging my feet on day one on putting anything on paper because it [didn’t feel like] the passion and the focus for the right reasons was with this person,” Gravely said.

The sister shareholders have found a good match in Frankstone, who had once decided in 2008 after working at Vietri for a year that the family business was not for him. But, Susan and Frances welcomed Frankstone back to the company after he earned his MBA and got outside work experience. “We left the door wide open, and the more he learned and the more he was involved in business operations, he saw this as a company with a lot of potential,” Gravely added.

stepping out before stepping in

Here at UNC Kenan-Flagler, our own research shows that this initial reluctance of a next-generation family member to join the family business is not uncommon. Many of the best next-generation family business leaders tell us that they thought they would never join the family firm. Spending time gaining experience outside of the family business, the way Lee did, not only helps next-generation leaders build confidence in their own skills in an environment where their family connections don’t garner them any special treatment, but it can also help them discover their own passion for the family business. Sometimes working in an outside business helps them see what they love about the family business that they could not see from an ‘inside the family’ perspective.

Initially, Frankstone said that because his background was in manufacturing and engineering, he couldn’t easily picture himself stepping into Gravely’s shoes.

“I learned that I wouldn’t have to replace Susan,” Frankstone said. “I would just have to be myself and use the skills that I had learned in the best way. I started looking
at Vietri more as opportunity for me to grow as opposed to a burden of having to be my aunt."

Frankstone credits his work in the family business class at UNC Kenan-Flagler for helping him to understand and refine his motivation for a family business career. Through studying family business principles, hearing from successful family business leaders who shared their stories as guest speakers, and working on family enterprise cases with other students, Frankstone learned that the most successful next-generation leaders often have skills that complement rather than replicate those of the previous generation family business leader. And they often develop their own strategy for growing the business, rather than simply following their predecessor’s approach. The class also helped Frankstone discover how a career at Vietri could help him grow as a person and achieve his life goals. Our research shows that this kind of motivation is common among the best family business leaders.

Students in UNC’s family business class develop a life plan as one of the key deliverables. The life plan helps them explore their personal visions for the future and develop specific strategies for achieving life goals for career, family, health, and community. We want our students to spend time reflecting on their true motivations for joining or deciding not to join their family business.

**four motivations for joining family business**
Research on family business succession identifies four common motivations among next-generation leaders who joined their family business. Sharma and Irving refer to the kind of motivation Frankstone developed as ‘affective’, one in which the successor wants to pursue a career in the family business as the most fulfilling of all opportunities. A second motivation is ‘normative’, one in which a next-generation family member feels an obligation to join the family firm—as something that is expected of him or her as a member of the business-owning family. A third motivation is ‘calculative’, one that is based on the view that the opportunity costs of pursuing other career paths that might be personally more appealing are too high. And a fourth motivation is ‘dependent’, one that is based on self-doubt and the view that joining the family business represents a better opportunity than one could secure on his or her own merits outside of the family business. While some family business leaders admit to having a little of all of these motivations, the best family business leaders in our study primarily describe an affective motivation for pursuing a career in the family firm. It’s the motivation Frankstone discovered and the one we encourage our students to consider in making their own decisions about joining the family business.

**(Learning the stripes**
At Vietri, Frankstone now heads strategic planning and information technology operations, but he has been trained in all aspects of the business, which is important in developing the leadership talent of a potential successor. “Working in
operations, Lee brought significant savings to our company in solving problems we didn’t have time to focus on,” Gravely added. “We expect a family member to follow a job description and pass it with 150% excellence to move on to the next promotion. Every individual here needs to respect him and see his value and his contribution to their company, our company.”

Vietri’s focus on requiring Frankstone to meet or exceed the same performance requirements expected of non-family employee is one of the most important factors in developing the leadership talent of potential next-generation family business leaders. The best family business leaders in our study earned increasingly higher levels of responsibility through job assignments with real responsibility, real authority, real risk and real accountability. It is not uncommon for them to fail from time to time, but they are not protected from the consequences of their own mistakes. They have to figure out how to recover from failure and build on success. They also exhibit no sense of entitlement; rather, they go out of their way to be just like any other leader in the firm.

On the other hand, poorly developed family member successors are often shielded from the risks of failure and the consequences of their own actions. They rarely receive open, honest feedback because they are members of the business-owning family and are often officers themselves. If they fail in one area of the company, it is not uncommon for them to be moved to another area, without any repercussions or the opportunity to learn from failure. When next-generation family business leaders are shielded from the consequences of their actions, denied the opportunity to fail or succeed on their own, provided with very little honest feedback and protected from the challenges of business and life, their ability to develop the emotional and social intelligence skills that have been shown to be so critical to effective leadership is retarded.

**succession is a process, not an event**

Wise family business leaders like Susan Gravely and her sister Frances spend as much time on the development of next-generation leaders as they do on the development of the business. They also know that succession is a process, not an event. Transferring leadership and ownership from one generation to the next ideally takes place over many years. Vietri’s strategic plan has seven points, one of which reads: “Pass the leadership baton seamlessly over a decade.” As part of that process, they are providing leadership training to the entire family and non-family leadership team.

At Vietri, Gravely is confident that the business she and her sister created is in very capable hands. “When the original owners are ready to retire, they need to know they can confidently trust that this younger generation has the vision and understands the mission of the company so that they can start letting go,” Gravely adds. “Lee brings a much better operational mind than mine and a growing and keen fiscal mind. He brings strength to my weaknesses and the things I am not interested in, and that gives me tremendous confidence in the blood flow of the company.”

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