

ties that bind

The *Last* Challenge of Entrepreneurship – finding your replacement

(Part three in a four-part series focusing on succession planning)

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How do you replace an entrepreneur? Truthfully, you can't. In 30 years of working with family-owned businesses, I have never seen a "replacement entrepreneur." It's an oxymoron, like "jumbo shrimp." But it is possible to develop a system that provides stability and direction for the family business.

An owner-entrepreneur does not have to leave the company for this to happen. He or she needs to change roles and become the designer to help develop the new system for business leadership and governance.

Leadership prepares the next generation.

To produce leadership, the entrepreneur must establish a process that helps next generation adult children maximize and leverage their gifts to benefit the company and fulfill themselves. This requires a commitment on the parts of both the company and the family to support and develop the younger generation of adults. When more than one adult child is involved, the entrepreneur should establish a leadership team that helps the next generation find an appropriate place in the company, based on their talents. According to Jim Collins in *Good to Great*, you need to allow the next generation the chance to "find the right seat on the bus."

Governance requires a Board of Directors.

In my experience, owner-entrepreneur companies may have a Board of Directors but it is usually inactive or, at best, is a "kitchen cabinet" of senior managers, professionals working with the company, friends of the entrepreneur and sometimes family members.

To successfully meet the last challenge of entrepreneurship, a family business needs an

active board of directors consisting of either outside advisors or members. There are good arguments for either but its purpose is the same: provide objectivity and strategic wisdom so that the business continues to prosper.

In addition, the Board of Directors can function as an intermediary between the owner-entrepreneur and the younger generation adult son or daughter who is running the company. Based on our experience it is much easier for the company's next generation president to report to a board rather than to Dad.

For the business, a board of directors is good business. Research by Ernesto Poza (Thunderbird – Garvin School of International Management, Phoenix, Arizona), shows that family businesses with active boards of outside advisors are significantly more profitable than family businesses without an active board.

A board needs critical design factors.

Several design factors guide the process of developing a Board of Directors.

Create a prospectus for prospective board members that describes the company, including an overview of the business, its most important products, the industry, types of customers, size of the company and the nature of ownership.

Include a board profile that covers the character of the business, stages of the life cycle of the business, strengths and weaknesses

of the business, strategic thrust of the business and plans for growth and market share development.

Define the purpose of the board with tasks that could include:

Examining and brainstorming strategic directions in the face of market maturity or intensifying competition

Stimulating continued management professionalism and organizational development

Helping to develop the succession process and supporting successors

Counseling spouse and successors if the CEO dies or is severely disabled

Encouraging and increasing self-discipline and accountability with the president and across the organization

Articulate personal criteria and desired background and personal characteristics of outside advisor members of the board. Most important, avoid choosing friends. Instead, select trusted professionals who can add value to the company.

The owner-entrepreneur's greatest responsibility for transferring power lies in designing the new system of governance and leadership. Within the last challenge of entrepreneurship, your legacy is made clear in how you prepare this gift to the future. Tomorrow's leadership and governance helps family members find future success, and establishes a path for generations to come. **MB**



THE CONTRIBUTOR

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