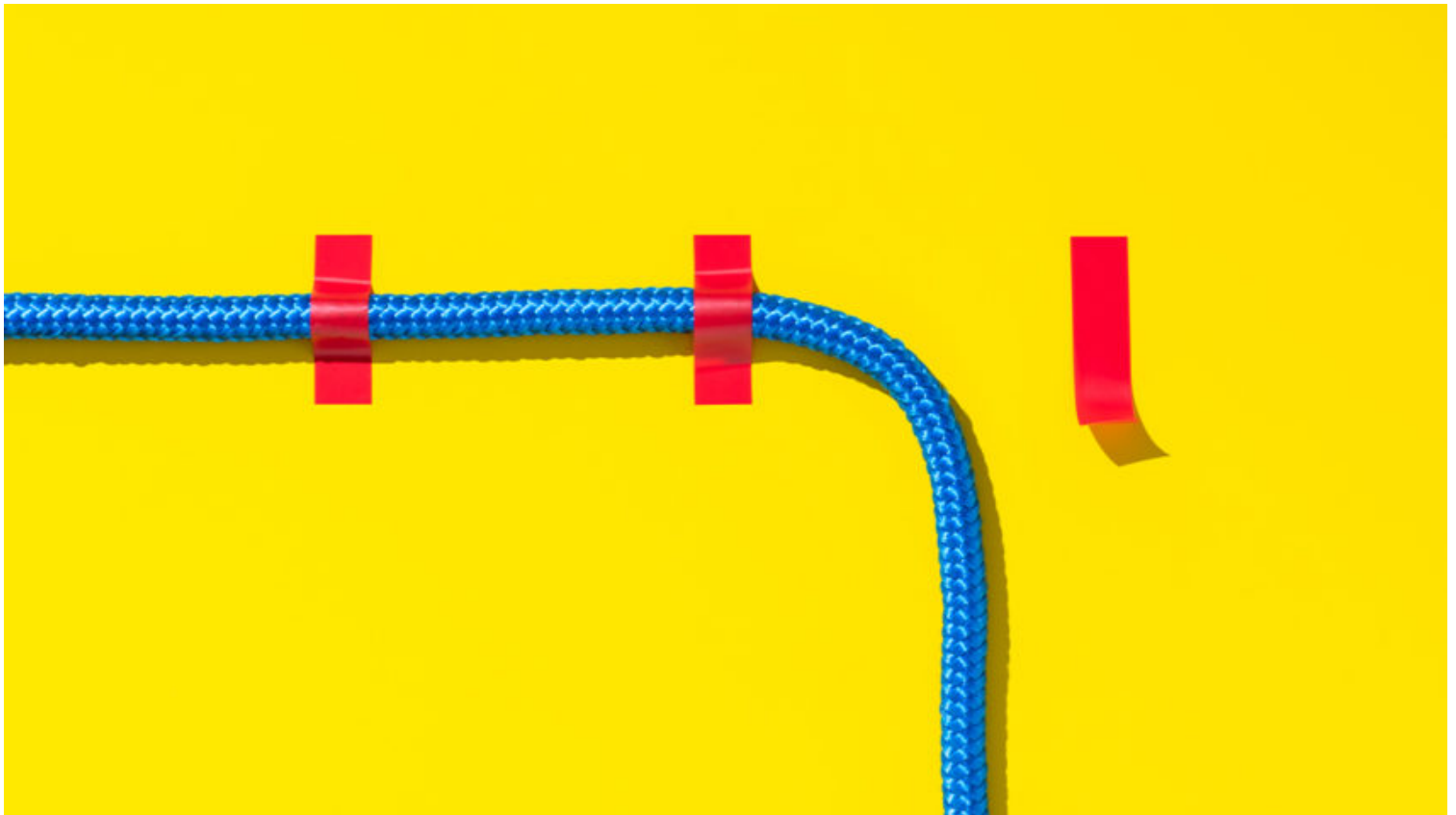


CORPORATE GOVERNANCE

Why the Second Generation Can Make or Break Your Family Business

by [Dennis T. Jaffe](#) and [James Grubman](#)

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John D. Rockefeller was a titan of the Gilded Age. But his only son, John D. Rockefeller Jr., had the unenviable tasks of managing the family fortune and rehabilitating the family name after his father's reputation was in tatters, as he was accused of being a ruthless monopolist. Junior (as he was known) mentored his own five sons and his daughter, enhanced his father's charitable legacy, hired talented advisors to professionalize the family's investments and philanthropy, and prepared the burgeoning third generation for social and philanthropic leadership.

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While the traditional view of family business is that first-generation (G1) business founders are the entrepreneurial dynamos whose work and energy drift away in subsequent generations, the Rockefellers' story demonstrates that the second generation of a family business doesn't have to live in the shadow of the first generation.

Conventional wisdom has typically said that the second generation (G2) of a family business should focus on sustaining the founder's example and vision, with the primary directive being "don't mess it up." But the reality in today's global family enterprises is much more complex, and potentially more positive.

The Messages Handed to G2s

As we have noted in past studies of generational wealth, many G2s are raised by parents who demand achievement in school or careers, but otherwise ask very little from them for the family business or its enterprises. The message is often: Don't tamper with the golden goose you've inherited. To be sure, when family businesses demand both parents' time and attention, the resulting absent or unsatisfying parenting can leave many G2s struggling with their own personality development. Worse yet, our long experience as family business consultants indicates their advisors may expect little of them and are only happy to take over the care and feeding of the family wealth.

Leading a Family Business

Best practices for long-term success.

However, we've increasingly seen many unsung heroes in the second generation. Their efforts on behalf of the family go well beyond simple caretaking of the founder's legacy. Newly published research has highlighted that successful leaders in G2 are often creative and entrepreneurial, with a more collective family orientation than the strong solo leader in G1. They have a pivotal role in professionalizing the business and building out new initiatives that expand the enterprise. Just as G1 had to do, they must anticipate new conditions and invest in fresh opportunities to keep the business vital in a changing world. They typically face a different economic climate than G1 may have encountered, as well as a more global environment. They may have to decide whether to sell or diversify the legacy business, whether to create a foundation, how to handle shared property and investments, and whether to revamp the family's advisory team.

Successful G2s tend to focus more than G1 on gathering and aligning disparate family members to create a strong family pillar alongside a well-developed enterprise pillar. The second generation is therefore crucial to pivoting the family away from a single-minded focus on business development to a broader set of initiatives where family communication, governance, and cohesion are fostered. It is often in G2 that family councils are first considered — or at least the beginnings of more information-sharing and decision-making among siblings. The need for family governance may have been only dimly understood by the wealth creator, leading to incomplete or misdirected succession planning.

The core question that arises in G2 is not how the family can create more wealth, but rather: What is the purpose of the wealth? If G2s are to become more than passive heirs and consumers, they have to decide how they want to answer this question in order to determine the family's destiny and legacy.

Helping G2s Fulfill Their Purpose

A multi-pronged approach can help fulfill the promise of dynamic G2s in partnership with consultants and family advisors:

Awaken to the challenge. The common leadership model of G1 is a single paternalistic leader. Although many families want to replicate this in the next generation, a more effective model is for the G2 leader to become someone who collaborates, educates, and inspires the family. G1 galvanized the business. G2 must activate the family.

The G2 leader needs to help the family learn to work together to redefine and propel its legacy forward. Yet, being asked to contribute is often a new experience for G2 family members who've been trained to be passive. Advisors can coach the emerging G2 leader in those traits that distinguish leadership from management — how to inspire; how to be patient as teams take time to coalesce; how to listen more than command; and, how to provide the vision that sustains momentum while the hard work of family governance is performed. Advisors can also help G2 leaders foster responsible family behavior through accountability and transparency, discarding the black-box leadership model in G1. Doing so builds the stewardship mindset necessary for the long term.

Engage the family in any strategic planning. G2 must gather business advisors and family members to review both the current and future designs of its enterprise entities. This strategic planning may point to eventual sale or redefining of the legacy business, or to diversification of the family's assets. A byproduct for the family is the opportunity to reaffirm core values and principles, recommitting the family to the enterprise. Our research finds that dynamic G2s often helped the family question whether they were properly positioned to extend what had been previously successful into the future. A sober, objective assessment often plants the seeds of growth in useful new directions. The voices of younger family members must be included and respected in this process, as they often advocate for new perspectives incorporating the social values that matter most to the next generation.

Freshen the advisory team. Business teams are typically ready to accept the fact that a new CEO might suggest legitimate, sometimes overdue staff turnover to unlock fresh thinking and create new value for shareholders. Yet, family advisors often fear generational transitions, for reasons of self-interest or entrenched thinking from their long alliance with the founder. A key challenge for dynamic G2s is having advisors who truly understand the importance of the family side of governance in balance with the enterprise side. Supportive advisors can help G2 implement a necessary generational shift to transform the family culture, and often the entire business. A new advisory team that brings new thinking is likely to need more emotional intelligence and a positive view about G2s so the transition can accelerate productively.

Develop high-quality shareholder and ownership agreements. Most families we have dealt with eventually needed to create new shareholder agreements, either at or shortly after the generational transition from G1 to G2. Prior agreements were often informal or lacked adequate provisions to handle the complexity of G2 and beyond. Sometimes, the controlling nature of G1 built in restrictive elements, strangling proper development in subsequent generations. Effective G2s may need to spearhead a renewal of ownership structures, wealth transfer provisions, and shareholder agreements better suited to family involvement, accountability, and engagement.

Foster family-wide activities to build cohesion. Successful G2s encourage family activities, forums, career opportunities, and, especially, family assemblies that build important bonds. Regular, well-planned family activities foster engagement, education, and enthusiasm for the future. More than just social gatherings, family assemblies provide the glue that will hold the family together. These activities require the active involvement of multiple family members — pointing again to the need for a dynamic G2 leader who can generate the necessary energy for family participation.

Dynamic G2s are often the unsung heroes in a family business, building on the legacy of the first generation to develop a great family, not just a great business. With proper support, coaching, and recognition, the second generation no longer needs to be considered second best.

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Dennis T. Jaffe is a San Francisco-based advisor to families on family business, governance, wealth and philanthropy. He is author of *Borrowed from Your Grandchildren: The Evolution of 100-Year Family Enterprises*, and co-author of *Cross Cultures: How Global Families Negotiate Change Across Generations*.

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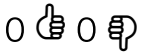
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Jim Dore' 2 days ago

Well written and informative. I could not help but place the word family with that of employees. After all, companies today refer to partners, associates, stakeholders, etc. The article has given me several golden nuggets.

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