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Intergenerational trust: The key to succession in family business

Trust is the cornerstone of family businesses. It can help businesses forge relationships among family members and build a thriving organisation. While the legacy, values and heritage of a family business offer a solid foundation for longevity of family business, the challenge for these businesses lies in how they can enable the transition to emerging family members by building intergenerational trust for business continuity. This requires focussed and sustained effort to build trust. The question arises, how can businesses build trust through a trust equation?

Trust equation

Trust = competency + capability + consistency

Trust in the context of family businesses can be understood as the sum of three critical factors:

1. **Competency:** Family members who are able successors need to demonstrate their ability to add economic value to the business by developing necessary expertise, gaining external experience and building competencies which can enable them in predicting future trends.
2. **Capability:** Emerging family business leaders should develop the ability to apply their skills effectively to achieve measurable outcomes, drive innovation and lead with impact. Leaders who demonstrate this capability inspire confidence in their ability to navigate challenges and solve complex problems which enhances the trust of the older generation in the next generation.
3. **Consistency:** Dependability of the family member in meeting commitments, delivering results and aligning operations with the business's core values fosters confidence in their long-term strategy. Consistency of performance on a long term basis is what builds trust over a period of time.

Why trust equation is important

Trust equation is essential for sustaining a family business across generations. It ensures collaboration, decision-making and long-term success for family business members. Without trust equation the business risks losing its competitive edge, its sense of purpose and harmony among family members which is necessary for a seamless leadership transition.

In family business, trust is an intangible capital which can be accumulated or depleted over a period of time. A high trust quotient reduces perceived risks, fosters collaboration and creates room for innovation. Conversely, lower trust quotient amplifies tensions, hinders cooperation and impairs decision-making.

Why building trust is necessary for family businesses

Building trust is a time-consuming process which can yield significant results once established. For family businesses, trust between the senior members and the next generation is important due to the following reasons:

1. **Ensure a smooth transition from one generation to another:** Trust minimises resistance, builds confidence in the new leadership and builds confidence in stakeholders that the business will continue to thrive. Transferring leadership from one generation to the next often creates uncertainty if the trust equation is weak.

2. **Foster innovation and growth:** Individuals feel empowered to take risks, suggest new ideas and drive innovation without fear of failure or judgment. The confidence to succeed and the appetite to take calculated risk increases for family members.

3. **Develop a culture of collaboration:** The ability to manage and resolve differences and remain aligned with the shared vision (purpose) of the business increases substantially.

4. **Objectivity in decision-making:** Decision-making is efficient and family members are more likely to support strategic directions without doubting motives or abilities.

5. **Build confidence for external stakeholders:** A trusted leadership team reassures customers, investors and employees, ensuring continuity and stability even during transitional phases.

What happens when the trust equation is weak or absent

The absence of or a weak trust equation in family businesses may lead to:

1. **Credibility erosion:** The next generation may struggle to gain acceptance from internal and external stakeholders. This could lead to reputational damage and loss of business opportunities.
2. **Increased conflict:** A lack of trust breeds suspicion and amplifies interpersonal conflicts which can distract the employees from the business's objectives and damage family relationships.
3. **Obstacle to decision-making:** Low trust quotient can slow down decision-making as every action and motive may be scrutinised. This can lead to missed opportunities or stagnation.
4. **Resistance to change:** In an environment of low trust, efforts made by the next generation to modernise or innovate may face pushback, leaving the business ill-prepared for evolving demands of the market.
5. **Disinterest in talented family members/professionals:** Family members or professional managers may disengage or leave the business if they feel unsupported resulting in a loss of valuable skills and perspectives.
6. **Disruption in legacy and continuity:** A family business without trust may fail to preserve its legacy, as divisions within the family or poor leadership can erode the foundational values that sustain it.

Building trust equation

The trust equation must be actively pursued and built to ensure a seamless transition between generations and within the organisation. Given below are some recommendations which family businesses can implement to build trust in their companies:

- Senior members of the family business need to build systems and processes to transition from a person-centric to a systems-centric organisation, delegate authority and power, and establish governance mechanisms which ensures fairness and lead by example.
- Emerging generation need to demonstrate competence through capability and experience, build consistency through reliable actions and bring economic value to the business.

To build the trust equation there are four key stages through which each individual of the family, especially those who are working in the family business, need to go through to transition from developing trust due to familial ties to building trust based on objectivity and professional ties. The four stages of building trust are:

1. **Social trust:** This is the foundation of the relationship which is rooted in shared values. Emotional bonds, mutual respect and a shared understanding of the business's legacy builds the initial layer of trust between family members.

2. **Competency trust:** Competency trust is forged when individuals demonstrate the skills and knowledge which are necessary to contribute meaningfully to the business. This stage is critical in proving their readiness for taking greater responsibility and accountability.

3. **Systems trust:** Systems trust is developed through robust processes and governance mechanisms which ensures fairness, predictability and transparency. This reduces the dependence on individual personalities and creates stability. Predictability and consistency is demonstrated by the family members which gives a sense of fairness.

4. **Institutional trust:** Institutional trust represents the highest form of trust. It is embedded in the culture, systems and governance of the business and ensures sustainability and resilience across generations. It also demonstrates excellence and credibility over a period of time.

The role of senior members of the family business

The senior generation plays a pivotal role in fostering trust and ensuring a smooth leadership transition. Their involvement shapes the readiness and confidence of the next generation while safeguarding the business's legacy. Some of the ways in which the senior members can help the next generation members of the family business are:

1. **Mentorship:** A senior leader should dedicate time to guide younger family members through complex business decisions. For instance, a founder might mentor a next generation member on negotiating a major deal or navigating a market downturn, offering insights based on decades of experience. Mentorship also involves sharing stories of past successes and failures to prepare the next generation for leadership challenges.

2. **Delegation:** A senior leader should assign responsibility for a key business unit or a strategic project to a younger family member and allow them to demonstrate their capabilities. For instance, the next generation could take charge of launching a new product line or expanding operations to a new market with the senior leader offering support when needed. Delegation builds confidence while allowing the senior generation to evaluate readiness for larger roles.

3. **Recognition:** Senior members should also acknowledge the contributions of younger family members in company forums or annual meetings. For example, a senior leader might highlight the efforts of a next-gen leader who successfully implemented a digital transformation initiative or streamlined a supply chain process. Recognition not only builds trust within the family but also reinforces credibility among employees and external stakeholders.

4. **Building emotional resilience:** Senior members should coach the next generation on handling interpersonal dynamics such as resolving conflicts within the family or managing stakeholder expectations. For instance, a senior leader might help a younger family member mediate disagreement with peers to foster unity and collaboration.

5. **Setting standards through actions:** A senior leader should demonstrate ethical leadership by upholding the values of a family business during business decisions such as prioritising sustainability or ensuring fair labour practices. This sets a precedent for the next generation to follow.

By actively engaging in mentorship, delegation and recognition, senior generation can ensure that leadership transitions are smooth and rooted in mutual trust which can pave the way for long-term success.

Governance structures for enabling trust in family businesses

Strong family governance frameworks can play a crucial role in enabling trust and ensuring seamless transitions. Some of the key aspects of this framework include:

1. **Family governance mechanisms:** Establishing family councils, constitutions or charters to outline roles, responsibilities, accountability and shared values which can bring clarity and reduce potential conflicts.

2. **Next generation committees:** Setting up platforms where emerging leaders can collaborate, share ideas and gain exposure to strategic decision-making. This fosters a sense of ownership and prepares them for future leadership.

3. **Independent boards and advisors:** Involving external advisors or board members to bring objectivity and expertise to governance and succession planning helps balance emotions with professional decision-making.

4. **Transparency and communication:** Maintaining open communication across generations ensures alignment, reduces misunderstandings and strengthens trust over time.

Given below are some of the key areas where family businesses can focus on to develop and enhance trust in their organisations:

1. **Education and external experience:** The senior members should encourage the next generation to gain knowledge and perspectives from outside the family business to enhance their readiness for leadership.

2. **Opportunities for growth:** The emerging generation should be provided with a platform to bring in proposals which they want to execute in terms of projects, new ventures (adjacencies included) and initiatives.

3. **Embedding values:** Evolve the family business by adopting and adapting to modern practices and technology to remain relevant while preserving its identity.

4. **Fair and transparent governance:** The business should build systems which promote fairness and accountability to ensure a smooth leadership transition between the two generations.

Conclusion

Succession in family businesses is not just about transferring ownership; it's about building and sustaining trust. The journey from social to institutional trust requires deliberate efforts from both the senior and emerging generations. Trust built on competency, capability and consistency ensures a seamless transition of leadership and enables family businesses to preserve their legacy. By consciously investing in developing trust and implementing robust governance structures, family businesses can create a lasting foundation for generational success, proving that the essence of a thriving family enterprise lies in its people, values and shared vision.

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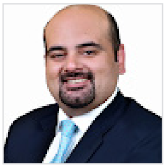

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