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In This T.A.L.K.

The Five Deadly Sins Of Family Business Succession And How To Avoid Them

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Family, that ancient and sacred unit, faces a new challenge today—business. The family business. A crucible where blood ties meet balance sheets. Where love wrestles with ledgers. Where legacies are either meticulously crafted or tragically undone. The culprit? The “future” (succession). The passing of the torch. A delicate dance. A minefield of potential failures. Within the sophisticated and chaotic family business environment, we discover the seven pillars of enduring strength, the “7Fs”: Founder; Family; Firm; Future; Fortune; Foundation and Family Office. Yet undeniably, it is the Future, the prudent transfer of leadership, the steadfast preservation of values, the unrelenting perpetuation of prosperity, that unveils itself as the most difficult of terrains. It is precisely within the domain of succession that countless family businesses, once vibrant and promising, stumble and fall.

Though, seemingly unique to each enterprise, the fall of family businesses are a simple manifestation of universal human failings. And in chronicling the rise and fall of civilizations, these errors are the very seeds from which empires crumble. It is imperative, that we avoid these deadly mistakes in succession, if the family business is to flourish for generations to come. Succumb to them, and prepare to witness the unraveling of the hard-won legacy. Conquer and ascend Mount Olympus. Socrates, reminds us that “the unexamined life is not worth living.” Let us, examine these sins with unflinching honesty, while, charting a course toward a brighter and more secure future.

1. The Unspoken Plan

Clarity! The philosopher’s lodestar, the businessman’s cardinal necessity. Yet, the family business founder, the indomitable spirit who births the enterprise, too often recoils from contemplating his own departure. This is a tragic error. He clings to the helm, even as his grip weakens and avoids planning. The result is vacuum, uncertainty and potential chaos. The business drifts, rudderless and rival factions emerge. The family splinters and eventually the market pounces. All because a simple conversation, was deferred.

It is incumbent on the family to plan, early and openly. The founder has to formalize his intentions in a written document—a Family Constitution will do for starters. This will serve as a legal code, defining the roles, establishing time lines, assigning responsibilities and leaving no room for ambiguity. A living document, the Family Constitution must be reviewed regularly and revised as appropriate. It will serve as a testament to foresight, a monument against neglect.

Actionable Steps

Regular Family Business Meetings: As essential as breathing. Schedule frequent gatherings, not just to celebrate profits, but to confront challenges and discuss the future.

Succession Plan Document: A detailed blueprint. Identifying potential successors, outlining their training, and setting clear expectations.

Third-Party Expertise: An impartial eye. Engage consultants or advisors to mediate discussions, providing objective guidance and defusing potential conflicts.

2. The Unequal Heir (Favoritism)

Favoritism! This is a viper in the bosom of any family. In business, it becomes a serpent that devours all. This is borne out of the erroneous assumption, that lineage equates to leadership. That the eldest son, the strongest daughter, or the “most interested” offspring is automatically the best choice. A fallacy that has ruined countless enterprises. The result is resentment and incompetence. The spark of innovation is extinguished and mediocrity begins to reign, when businesses are led by the unqualified, while the competent are sidelined. The business first diminishes, then declines. To curb this decline, the family has to be ruthless in objectivity. Every ‘prospective’ successor, must be assessed on merit i.e. on skills, experience and demonstrated commitment. Not on who pleases the most. This is a difficult but necessary task.

Actionable Steps

Merit-Based Evaluation: As cold and calculated as it seems, the family must employ professional assessments to identify the strengths and weaknesses of each candidate.

Skills Assessment: What of aptitude? Are there short-comings? How can they be managed?

Training and Mentorship: Invest in tailored programs to cultivate leadership and strategic thinking skills. A prospective must be tested under pressure.

3: The Stifled Innovator

Tradition! A comforting anchor in turbulent times. A suffocating shroud to the inexperienced. Family businesses, steeped in history, often cling stubbornly to the past. The founder's methods. The old ways of doing things. The business becomes resistant to new ideas. This fatal inertia results in stagnation and obsolescence. It begins to decline slowly as competitors adapt and innovate. The business becomes a relic, a museum piece, unable to compete in a rapidly changing world. To be relevant, the business has to embrace change, cultivate a culture of innovation, encourage new perspectives and listen to the younger generation. The future, unless seen with clearer eyes (adapt and evolve) will be condemned to the dustbin of history.

Actionable Steps

Innovation Culture: Foster an environment where new ideas are welcomed, not stifled. Reward creativity, especially when it challenges the established norms.

Technology Integration: Embrace new technologies to streamline operations and enhance competitiveness. The world has changed. So must the business.

External Expertise: Seek outside counsel. Engage consultants, industry analysts, bolstered by academics. All this is done, to gain insights into emerging trends and disruptive forces.

4: Communication Breakdown

Silence! The great destroyer of relationships. In family businesses, a plague. It makes no room for difficult conversations and suppresses unpleasant truths. Resentment then, is left to fester, slowly, and agonizingly, unravelling and becoming the order of the day. Distrust and paranoia begin to rule. Open warfare erupts within the family and the business becomes a battleground. Personal grievances take precedence over strategic objectives. The solution, is communication. Clear channels of communication must be established. This must be open, honest and frequent. All conflicts must be addressed head-on before they escalate, into crises. The family, must meet regularly, and insist on transparency in decision-making.

Actionable Steps

Open Dialogue: Create a safe space for family members to express their thoughts and concerns without fear of reprisals.

Communication Protocols: Establish clear guidelines for communication, including the frequency and methods of interaction.

Conflict Resolution Mechanisms: Implement formal processes for resolving disputes. Mediation or facilitated discussions, with a neutral third party, are a good start.

5: The Unprepared Successors

Responsibility is a weighty burden. Placing it upon the unprepared shoulder is an act of grave cruelty. When we assume, that mere birthright qualifies one to lead, we engage in a tragic delusion. The business is left moribund, employees flounder and customers defect with the pockets. The ill equipped heir, is left to shoulder both blame and shame. For the business to thrive, the successor must have real-world experience-intensive mentorship with rigorous and comprehensive preparation. Often starting from the shop floor before arriving in the boardroom. All told they must earn the respect, this cannot be inherited.

Actionable Steps

Comprehensive Training Programmes: Provide extensive training in all aspects of the business, ensuring a deep understanding of: marketing; operations; finance; and strategy.

External Experience: Encourage prospective successors to gain experience outside the family business, thus broadening their existing perspectives, knowledge and skills.

Mentorship: Pair successors with accomplished mentors, both within and outside the business, to provide guidance, support, and regular feedback.

These are the five deadly sins that often undermine the future of any family business, threatening not only the prosperity of the firm but the cohesion of the family and the long-term security of the fortune. But fret not, by embracing proactive planning, and cultivating a culture of fairness, communication, and adaptability, you can steer the family enterprise toward a future of sustained success. Marcus Aurelius wrote, "Begin each day by telling yourself: I shall meet with the busybody, the ungrateful, arrogant, deceitful, envious, unsocial. All these things happen to them by reason of their ignorance of what is good and evil. But I have seen the beauty of good, and the ugliness of evil, and have recognized that the wrongdoer has a nature akin to my own." Apply this understanding to the business and you will find the strength and wisdom to overcome even the most daunting of challenges.



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