



Transitioning the family business from one generation to the next is fraught with hardship, headaches and high drama. So says the mainstream press but it's just not so

Is smooth succession really a myth?

By Andrew Keyt

IF YOU BELIEVE the popular press on family business transitions you would think that the hopes of having a smooth succession between the generations is merely a pipe dream. The statistics say that roughly two-thirds of all family businesses will fail in each generation, which would suggest that a smooth succession process is nearly impossible. The statistics are misleading.

Creating a smooth transition is possible with strong family communication and family process, if the children develop a positive relationship with the business, if the business is building processes of accountability, and if the family is planning for ownership transition. Most people would say that the key to a smooth generational transition is to undertake 'succession planning'. The problem is that the research doesn't consistently support succession planning as a key to successful transition.

The reason for this is that succession planning emphasises a product rather than a process. In an effort to provide definitive answers, where often there are none, family business advisers often emphasise the development of fixed plans. These plans often centre on their area of expertise whether that be estate planning, insurance planning or otherwise. This focus on product creates the illusion of stability and comfort because it offers a concrete output where the group can say 'we're done'. But these so-called products merely reflect the interests of a subset of the family and overlook the underlying emotional processes and needs of all of the stakeholders in the succession process.

The big picture

What's a family to do? Is it possible to have a smooth transition? If we consider the images of family business given to us by the mainstream media, one would think that transitions only come about through the tragic deaths of an entrepreneur who works till they die or through a protracted family battle for control and power in the family.



We seldom hear of the successful transitions because they aren't pronounced and don't have the drama of a family fight or family tragedy. They are based on years of preparation, hard work, communication, and building trust. So how does a family prepare themselves for a smooth transition? The answer is to have the processes and support systems in place to help the family make the many difficult decisions that surround the succession process. One of a family firm's greatest attributes is often its ability to be flexible and focusing too much on 'the plan' can cause families to

overlook many of the obstacles to succession. Don't look for a product, look for the processes that enhance communication and build trust among the family members.

Process, process, process

Developing a strong family process starts with raising strong children. Someone once said it is better to build strong children than to repair adults. Nowhere is this more important than the family business. We must teach children responsibility and accountability; we must teach them not only to be strong individuals, but to be strong communicators and collaborators in working with other family members. Children will learn these values if they are modelled and upheld by other family members

Raising strong children is not enough. To deal with the complex overlap of family, business, and ownership roles, a strong family governance structure is important to prepare a family for whatever challenges come out of the succession process. For smaller families, this may consist of holding regular family meetings with a set agenda and focused goals. For older, larger family businesses this will mean the creation of a family council or other representative governance structure.

A gilded cage?

A common problem in the succession process is that the family business becomes a burden to the younger generation. We often see successors who haven't known anything but the family business and feel trapped with a lack of empowerment to change anything in the shadow of their parents. Another common scenario is that parents only share their frustrations about the business with their children and children then ask themselves, 'Why would I want to subject myself to this when I can be happier somewhere else?'

Families can manage these challenges by treating their children's potential roles with the family business as a career path, not a family job or a family obligation. Outside work experience should be encouraged to help develop a strong sense of personal identity. The board should create a process where family members can receive objective feedback on their performance, their strengths and weaknesses. As with any successful corporation, the family business should be assessing their managerial talent (both family and non-family) and intentionally charting their development within the company. A key component for these individuals is having a mentor to be an advocate for their development. Our experience suggests that having a mentor outside the corporation can be more valuable than insiders.

Getting down to business

The strength of the business is the foundation for all things family business. Research shows that another key component to successful generational transitions in family business is to have a strong strategic planning process as well as an active board of directors. The essence of this is having a strong business decision making processes that incorporate the family voice through mission, vision, and major objectives, while making sound business plans and business decisions.

Like succession planning, strategic planning is not about creating a written document, although that may be one of the outputs of the process. Strategic planning is about having a dynamic process through which to analyse the strengths, weaknesses and opportunities faced by the family business. Based on this

knowledge, the management team then uses this information to formulate strategies, goals and objectives to achieve the mission and vision of the company. Strategic planning without a clear voice from the family about the vision, goals and expectations for the company, can be destructive and or meaningless.

The board has the responsibility for critiquing the strategy of management, assuring that the strategy is in line with the mission vision and values of the family, and holding management accountable for accomplishing this strategy. In a family business, the succession process is a key component of the strategic future of the business. Therefore the board plays an integral role in the process which can range from evaluating potential successors, to mentoring, to actively charting the course of family members through the corporation.

Plan and plan again

The final key to a smooth transition in the family business is the process of planning for ownership transition. This is discussed last because it really should be the final phase of the process. The family governance and business governance processes are the core communication tools used to create the vision for how the transition will take place and the ownership transition plan should really be executing a plan that supports that vision.

Ownership transition should start by assuring that all family members have the financial acumen to handle their roles as shareholders. The family needs to deal with the questions of what is fair in terms of the ownership transfer. Equal is not always fair and, with a strong family governance process, the family can create a fair ownership structure.

A common challenge with ownership in a family business is that if the stock does not pay a dividend or the family member does not have an option to sell the stock, the shareholder may feel the stock is worthless and feel trapped by their family

members. A key to resolving this is by having liquidity or a buy/sell agreement so family members can decide whether they want to be part of the family business.

Taxing questions

The transition process needs to be carried out with proper estate planning. Balancing the ownership needs of the family and business with the tax liabilities that are inherent with estate taxes is vital. Too often these plans are tax driven with no understanding for the greater needs of the family and business. This is why this is the last phase of the transition planning process.

While the popular press may want us to believe that successful succession is a pipe dream, it is clear that with an emphasis on enhanced communication at all levels and having the proper processes in place families can have a graceful transfer between generations. Family business leaders must consciously develop their children's relationship with the organisation so that it isn't seen as a burden, birthright or obligation. Families must invest in building strong strategic planning processes and boards to assure that management is accountable for achieving the mission, vision and value of the family business.

Smooth transitions a pipe dream? Not if you put process before plans. ■

Family business leaders must develop their children's relationship with the business so it isn't seen as a burden

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