Succession Planning
By Dean R. Fowler, Ph.D.

"On a hot August afternoon, Ted Brown stepped from his attorney's office, satisfied that the papers he'd just signed would provide financial security for his wife and family in the future. As he watched thunderclouds build on the horizon of the community he knew so well, Ted Brown had no way to know that he'd just created a different kind of storm that would someday embroil his wife and children in conflicts over the control of the business." (from our book -- *Love, Power & Money: Family Business Between Generations*)

Statistics show that 70 percent of all family businesses fail to transition successfully from one generation to the next

A recent survey by ***Dean Fowler Associates*** found that of all the complex and critical issues family business leaders face on a daily basis, they are most concerned about ***succession planning***. Most family businesses, if they do any planning at all, develop estate plans to minimize their tax exposure. Like many owners, Ted Brown had an effective estate plan in place, but he failed to develop a comprehensive plan to protect the continuity of his family business. Certainly all businesses must deal with the tax implications of their planning. However, the transfer of family wealth and the power to control the family business should not be designed *simply* to minimize estate taxes. Instead, the best transition plans incorporate the goals and needs of the family into a coherent vision that fosters the ongoing success of the business. Designing family business continuity requires the integration of individual, management, business, and shareholder development into a comprehensive vision for the future. The time for succession planning is before a crisis occurs. And who knows, the next crisis in your business might come tomorrow.

A Delicate Balancing Act

Succession planning is a delicate balancing act and far too important to be decided at some last-minute gathering around the family dinner table. Families-in-business must develop an effective succession plan in line with the family's goals, good business practices and the mission of the organization. Often this means consulting with nonfamily executives from the business and outside advisers. Free from the swirling emotional attachments and conflicts of family relationships, these independent professionals are often able to identify potential trouble spots and provide practical and appropriate guidance to resolve even the most difficult succession issues.

Your business should not operate according to the standards of a medieval dynasty, with control automatically passing to the firstborn. But rather, competent family members who show a commitment to the business should be engaged in a personal and professional development program that helps them be proactive and take on leadership responsibilities. Succession is an arduous, collaborative process, not a coronation.

THE SEVEN HABITS OF SUCCESSFUL SUCCESSORS

After more than 20 years of consulting with families-in-business, we at Dean Fowler Associates, a consulting firm based in Brookfield, Wisconsin, have identified seven habits of highly successful successors. These simple guidelines can help family business leaders fully engage upcoming generations in the process and mission of the organization and ensure that when the time comes, the next generation will be ready for the challenges of leadership.

1. ***Establishing Independence***

   One of the most common errors in succession planning is the belief that younger family members should be brought in to "learn the business" as soon as they are old enough to hold a broom or operate a cash register. We often hear one version or another of the tired old cliché, "Sure I inherited the company, but I started in the mail room just like everyone else."

A much better alternative is to encourage young adults to pursue their own lives and their own interests outside of the business. They can learn responsibility and professional skills the same way everyone else does: by working for someone else. Most importantly, they will be free to pursue their own interests, establish their own financial independence, and build their own self-esteem.

As an alternative to working outside the family business, family successors need opportunities to learn leadership skills. Taking charge of a project enables young adults to succeed in their own independent efforts. For example, one successor identified an opportunity to provide additional services to customers of the family business. Under the direction of the chief financial officer, she developed a formal business plan that outlined the financial viability of her business proposal. Using "family venture capital," this successor started a separate business. As president of this venture, she had full authority and responsibility for future success.

2. *Reshaping Family Communication*

"Ask your mother" and "ask your father" are two of the most common dodges parents use to avoid dealing with the thornier issues of child rearing. In business, however, these are simply not viable options. The successor generation needs to take the responsibility to reshape the communication patterns in the family from the ones of childhood to new patterns based on adult-adult communication. Imagine the consequences if a younger family employee in a family business, not satisfied with an answer from one parent, goes running to the other for a second opinion, or, worse, draws in someone from outside the family. The ensuing conflicts could cripple the business and the family. Successful families develop clear channels of communication based on respecting all family members as adults.

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Perhaps the best way to ensure open, effective commun-ication is to practice active, or empathetic listening. Active listening simply means understanding the other person's point of view. Everyone needs to be reassured that their concerns are taken seriously. They may or may not get the answer they want, but at least they have been heard.

If done properly, reshaping family communication breaks the patterns of parent-child interaction and encourages younger family members to become responsible, independent adults. It is not easily accomplished, but with work and commitment on all sides, it can be done.

3. Demonstrating Competency

The traditional model of training the next generation to take over a family business is to have the successors start at the bottom and learn all facets of the organization. There is something to be said for this "buffet style" of professional development, but look at other major businesses and corporations. A jack-of-all-trades does not necessarily make the best CEO. Sometimes a specialist has the specific skills and experience the business needs at the very top. Next generation family employees should be given the opportunity to pursue the aspect of the business that uses their strongest competencies. They might have a special talent for finance or sales, for example. While successors need to understand all aspects of the business, effective management and leadership is the most critical for successors to master. Professional development means that every employee should be given the opportunity to excel in his or her own chosen field. Family members are no different.

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4. Participating in Strategic Decisions

To be successful, the next generation leaders of the family business must become engaged in the strategic issues facing the company. While successors are frequently involved in day-to-day operational issues, they must learn about strategy early in their careers in order to understand how their own projects fit into the broader strategy of the business. Typically, one of the senior executives who participates in the corporate strategic planning process helps the successor develop project management skills. The mentor guides the young adult in determining how best to align the successor's projects with the strategic goals of the business, rather than simply developing day-to-day tactics in reaction to business circumstances.

Successful successors take the strategic process one step further; they partner with the senior generation to define future strategies that fit the passions and competency of the successor generation. In one family business that specialized in long-haul trucking, a successor recognized that the company's communication technology and logistics expertise could also serve other businesses in managing their own private fleets. The vice president of operations helped him to prepare a strategic plan that outlined how these core competencies could be leveraged to create a separate profit center for the business.

5. *Clarifying Boundaries*

Perhaps one of the greatest challenges facing business successors involves clarifying the boundaries separating operational responsibilities, the development of strategy and corporate financial decisions. Successors need well-defined tasks and responsibilities within the overall organizational mission and there must be clear and appropriate standards to measure success. Conflicts over boundaries, roles and responsibilities are common in all family businesses. When conflicts arise, an outside mediator can help both generations or sibling teams negotiate these boundaries and resolve any differences before they develop into a crisis.

6. *Developing Liquidity Strategies*

Most family businesses have some sort of estate plan, a provision for transferring ownership to the next generation after death. But what happens if the current generation decides to retire, or a minority stockholder wants to cash out, or a family member has a financial need and would like to redeem

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some stock? Liquidity strategies should be thought through and developed into a comprehensive Shareholders Agreement. Usually these agreements address the issues of death, disability and retirement, but rarely do they define procedures for the buy-out of an existing stockholder, dividend policies, redemption programs or put provisions. Retirement and other liquidity events, unlike death, are planned events. There is no reason why appropriate agreements cannot be developed in advance to ensure a smooth transition.

7. *Assuming Financial Risk*

In most family businesses, successors are owners by virtue of being gifted non-voting stock. In this respect, the successors are essentially participating in their parents' estate planning tactics rather than assuming the responsibilities of ownership. Next generation leaders must become involved in the financial aspects of the business as a way of transforming themselves into responsible owners. Early in a family member's career, this involves teaching the young person how to read financial statements and explaining the impact of this financial information on business decisions. Successors should be introduced to bankers and other trusted advisers and develop relationships with these key advisors to establish the successor's credibility.

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To move from being passive recipients of a gift to active owners of stock, successors must be willing to take their own financial risk. For example, in one family business that acquired a competitor, the bank asked all family members to personally guarantee the loans. Some family managers were unwilling to co-sign such a document, thereby demonstrating their lack of commitment to taking financial risk. The willingness to take on personal financial liability demarcates the difference between management and ownership roles.

CONCLUSION

Patience is a Virtue

Although successors must be patient as they navigate their way through these seven steps, the senior generation must also demonstrate patience themselves by embodying this virtue in their interactions with their adult children. Mastery of these seven habits is a challenging process. The senior generation and other family members must be willing to accept and encourage the transition of the business from generation to generation. The opportunity to ensure a successful transition and build a lasting legacy must be shared through commitment, collaboration, and empowering pro-active successors.

Dean Fowler Associates, Inc. is a Brookfield, Wisconsin based consulting firm provides services designed for families who want to succeed in business together. Dean R. Fowler, Ph.D., and his associates, Debra Houden, and Steve Riege, are committed to building a lasting legacy for generations to come.

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