Twelve Tasks in Succession

Planning a leadership transition is hard, stressful work. Not every family has the stamina to stay the course, or the courage to face the choices that must be made.

By Ivan Lansberg

In my first session with owners of a family business, I have a simple, quick way of assessing how much thought they have given to continuity planning. After interviewing the power-holders individually, I will assemble the principal owners and ask: What would happen in the business if tomorrow the current owner-manager is hit by a truck and dies?

The question is much like the one General Electric chief executives customarily ask in what has been called GE's "airplane interview." The CEO assembles the senior managers and goes around the table asking each what would happen if he or she were in a plane crash: Who could take over the division? What would have to be done until a replacement is named?

In a family company—especially an entrepreneurial firm that depends heavily on the talents of one individual—the question evokes discomfort and, as a rule, nervous laughter.

The response is usually something like: "Well, we have some senior managers who are pretty well trained and who know what's going on." Or, "We have a board in place that can prevent the whole thing from coming apart." Or, "He [the owner-manager] has already transferred a lot of the assets, so estate taxes wouldn't be a problem."

None of these replies is very reassuring, or specific. In most cases, the family will have some vague notions about the shape of the future, and may even agree on who the logical successor would be. But it will soon become clear that they have rarely discussed these matters and have ignored details that are likely to be critical in any emergency to preventing a severe disruption in business. The response may be particularly revealing in smaller companies when the spouse stands to inherit everything and the children are not yet ready to take over. "I don't know anything about this," a wife may exclaim. "What would I do?"

It often falls to a family business consultant to ask questions that may cause anxiety, that may be on people's minds but have never been brought out into the open. The consultant also asks questions that have never occurred to anyone. One of the first is: "Do you really want to keep the business in the family?" Right at the start, I engage family members in a discussion of whether that is really what they want. People frequently continue a family business for years for the wrong reasons. The current owner-managers may believe it is their duty to carry on a family legacy, for example, feeling that their grandparents would “turn over in their graves” if they ever sold out.

I emphasize to the stakeholders in both the old and younger generations that they are free to choose. The decision is not automatic. Maybe they would prefer to sell the business and have $5 million to distribute so that each family member can pursue his or her ambitions. Maybe the children want careers outside the business. Perhaps the aging founder would like to devote more of his time to philanthropic work or to have that second home at the beach so he and his spouse can entertain their grandchildren.

I ask each family member to write down the advantages and disadvantages of staying in the business. I then summarize their lists on a flip chart which becomes the basis for a discussion of the choices facing the family.

This strategy is the first step in building commitment for the hard work of planning that lies ahead. (None of my clients has ever decided on the spot to sell the business. But in one sibling partnership, the exercise led two brothers to the realization that they were less committed to the business than the third brother; the result was a buyout.)

Assuming the family chooses to go forward, the process may take five years or more. To sustain the effort, key stakeholders must agree that they are willing to do everything necessary to assure success. The family must reach a consensus that this is what they really want, and that arrangements will be made to take care of those who do not agree.

Timing is critical. Often the entrepreneur is worried about continuity, but not enough to do something about it. Only a reminder of his mortality—a heart attack, the death of a business peer or sibling, or a bitter family argument finally persuades him to embark on a plan.

In some rare cases owner-managers are simply not ready. When a key family member is adamantly opposed to planning, even after a consultant has tried to get him involved, the family will have to wait until circumstances change and they all wish to resume work.

Throughout the planning process, there will be doubts and hesitations, stops and starts, retreats and advances. On a conscious level, most owner-managers know that planning is the right thing to do, for their families and the business. But emotional forces are tugging in the opposite direction, often preventing them from facing the issues. If a consultant is involved, he or she can work to overcome these resistances and strengthen the forces in favor of planning by guiding the family toward a vision of the future that all can accept; by helping them create a step-by-step plan for getting there that allows all to accustom themselves to their new roles gradually; and by constantly reminding them of the consequences of doing no planning.

The complexity of the process, of course, depends on what type of ownership and management structure the firm has had in the past and what type it is moving toward for the future. Three fundamental forms of family businesses have been identified: the owner-managed company, the sibling partnership, and the cousin syndicate. These types are not necessarily sequential. Not all firms are started and run by a single entrepreneur. A group of siblings who founded a company and ran it as equal partners may decide that the best structure for the second generation would be a single owner-manager.

Whatever structure the owners and key stakeholders decide they want, however, they must accomplish 12 specific tasks during continuity planning.

TASK ONE: Decide whether you want to continue family ownership.

This basic decision is extremely difficult to discuss and is typically avoided. For many families, the business is an important vehicle for family connectedness—the primary hub around which family life revolves. The older generation's deep attachment to the firm makes it difficult for them to think about the alternatives of selling or liquidating. Even talking about the family's commitment to the business is like questioning the members' love and respect for one another.

But continuity requires that those who will be in charge of the company's future develop a firm commitment to the business and to one another. For this to happen, stakeholders must understand the reasons that it is in their interest to maintain family ownership. They must make an informed choice.

TWO: Assess whether the family can withstand the stresses that continuity planning inevitably generates.

It's not enough for the family to decide that it wants to stay in the business. The members also have to understand that the planning process will at times be painful, and that when it is finished, not everyone may be satisfied by the result. The consultant's job is to convey what the process will be like.

Continuity planning requires conversations that even the healthiest families would much rather avoid. It involves openly discussing such issues as aging, death, and inheritance. It requires making hard decisions about distributing economic assets among loved ones, and it may involve giving favored positions to some siblings and cousins over others. Above all, it leads to wrenching changes that demand new ways of coping.

Leaders must assess whether their family has the characteristics needed to succeed at planning. It's up to the leaders to decide whether they should put the family—and themselves—through a process that may, in some cases, be divisive and leave bitter feelings.

THREE: Get the owner-manager(s) to agree to actively manage the development of a continuity plan and the transition in leadership to the next generation.

It is often those without power in a business who call on consultants for help with succession. Without the support of the principal owner-manager, however, the process is usually doomed to fail. And the owner-manager must not only agree to come to terms with letting go; he must also agree to actively manage the design and implementation of the plan.

By getting him to make that commitment, you increase the odds that the owner will buy into the process at each stage and use his power to see that the plan is carried out. Once the owner-manager has announced that he will step down by a certain date, for example, the process gains a certain momentum, which also makes it extremely difficult for the owner to change his mind.

FOUR: Consult and actively involve other major stakeholders in the process.

The views of those whose lives will be affected by the plan—key family members, senior managers, stockholders—should be solicited whenever possible. Their support will be necessary to carrying out the plan. They should be informed about what the planning entails, the frequency and format of the meetings, items on the agenda, and so on.

Senior managers may have valuable information about the impact of the plan on various constituencies such as customers and employees. The senior managers' views on strategic considerations in the plan are also essential.

Members of the next generation must, of course, have an opportunity to express their views and to influence decisions. They should not be kept in the dark about important matters such as how ownership of the enterprise will be divided under the parent's estate plan.

Though the planning process should be truly consultative, it need not be democratic. Lines of authority should be respected, and parents should retain their right to make the final decisions.

FIVE: Set up appropriate forums for reaching consensus on key issues.

At least three structures should be developed: a family council for discussion of family issues; a board of directors (if the company doesn't already have one) to deal with ownership and policy issues; and a succession task force to elaborate the strategic aspects of the plan and assist in the training of the successors.

The family council is the place to discuss such matters as the wishes and needs of individual members, the values they share, and whether they want to perpetuate the firm. It provides a setting where differences can be aired and worked through without interfering with the daily management of the business.

To empower the board, the company should appoint at least three top-notch outsiders as directors. Structurally, the board's role is to design policies that protect the family's wishes and values. The board can also provide badly needed perspective and expertise during continuity planning, provided it is not beholden to the owner-manager or one faction in the company. (In one firm that I studied, the founder explicitly charged his board with the task of alerting him to any unconscious attempts on his part to undermine the design and implementation of a succession plan.)

The mission of the succession task force is to develop a five-year strategic plan for the business and to define the qualities needed in future leaders who will carry out that plan. The task force identifies a list of senior manager candidates and prescribes the further training each needs to sharpen his or her skills and knowledge of the business. Besides the owner-manager, the task force should include one or two non-family senior managers and the leading successor candidates.

SIX: Develop a clear vision for the future of the business that all key family members can enthusiastically share and that spells out the role each will play.

The roles of family members can be defined by picturing three circles, representing family, ownership, and management, which intersect in places. Each member participates in one or more of the circles. Owner-managers are usually leaders in all three.

Family members have to be able to visualize what their company is going to look like five years from now, how their roles are going to change, and what these shifts in power and influence imply for both the family and the business. After succession, the owner-manager, for example, is no longer at the center of management but may perhaps remain an owner. He or she and other family members thus have to be able to envision how that will change their relationship.

Along with trying to imagine how roles will change, the family must develop a strategic vision of the firm's future. It is important to ask such questions as: What kind of business do we want to have in the future? In what kinds of markets will we be operating? What kinds of products and services will we offer? Once the family agrees on a future scenario, the leaders can work toward achieving a good fit between that vision and the interests and skills of members of the next generation.

A vision requires much more than being able to imagine various future alternatives, however. It involves getting the family to define the hopes and dreams that they share for the business. Members of the older and younger generations must agree on why it is significant to be in the business, why it is an activity worth perpetuating.

The vision may be left vague, so that all can hook their dreams to it. Usually, it implies a social mission beyond profit-making. The business is seen as playing a significant role in the welfare of its employees or the community. The leaders see themselves (in the phrase used by John Ward of Loyola University) as “stewards of capital” who are responsible for preserving the firm and carrying on its good works until it is passed on to a new generation. Without such a shared vision, it is doubtful that continuity planning can be sustained.

SEVEN: Choose a successor and other candidates for the future top management team, and plan a course of training for each.

After developing a strategic vision, the next question becomes: What kind of leadership is needed to successfully perform under this scenario?

The management task force should make a list of the managerial, technical, and personal skills they consider critical for the next generation. Then the task force should identify potential candidates for the top leadership positions. A common error at this stage is to assume that a person who has not done well in one job is not capable of exceptional work in any number of other future jobs. Young people are learning and growing and should not be counted out too soon.

The key here is to design effective training and work experiences so that those identified as having leadership ability can acquire the skills they need and have opportunities to prove their mettle. To fully assess their potential, they must be given real jobs with accountability and measurable performance standards.

EIGHT: Help the successor build authority both in the family and in the business.

A continuity plan provides for the transfer of power and authority. The distinction between the two is subtle but important. Power refers to a person’s capacity to influence the behavior of others. Authority, by contrast, refers to a person’s right to influence others, meaning that his or her power is regarded by others as legitimate.

Successors in family businesses often get jobs that give them power before they have earned the authority that comes with perceived competence in the eyes of employees. Owner-managers can help successors gain authority by publicly supporting them and communicating trust in their abilities. (Of course, owner-managers can also hinder successors by signaling a lack of confidence in them.) But basically successors must earn respect on their own, through their educational attainments, through their performance inside and outside the company, and by demonstrating they have the long-term interests of the company and its employees at heart.

Since the head of the business inevitably has great influence within the family, the successor must also win the respect of family members by demonstrating trustworthiness and a commitment to protecting the interests of all.

NINE: Design an estate plan that specifies how ownership of the enterprise will eventually be distributed among members of the next generation.

In too many families, the business owner plans his estate with lawyers, and family members learn the details only after the owner's death. That can lead to misinterpretations of the real intentions of the parent and to bitterness among heirs.

Discussing the plan with the beneficiaries ahead of time gives parents the opportunity to explain their reasons for dividing up the estate in a particular way. In some cases, they may decide to alter the plan after these discussions in order to ensure future family harmony. By letting members of the next generation know what they can expect to inherit, moreover, the parents enable them to plan their lives accordingly, based on realistic expectations of their inheritance.

TEN: Make sure family members understand the rights and responsibilities that come with the various roles they will assume.

While much attention is given to the management training of successors, other family members are usually less well prepared for their ownership roles. For example, people who own stock but do not participate in the business are often frustrated by their lack of influence. Family stockholders should be able to ask well-informed questions of management about the financial state of the business, provided they go through appropriate channels. They also need to appreciate the fundamental distinction between ownership and management. For that, they need instruction.

Likewise, those in management may need a refresher course in their obligations to stockholders. Often the managers assume that those who are not involved in the business have no legitimate claim to share in its profits. Retiring owner-managers may also benefit from some instruction. For example, the owner who has been directly involved in day-to-day operations for years and now plans to teach part-time at a local business college is likely to need coaching in what it takes to be a successful classroom teacher.

ELEVEN: Inform important stakeholders—customers, suppliers, creditors—about the firm's continuity plan.

The objective here is to reduce any uncertainty about the future of the business. Family firms tend to be overly secretive, not realizing the extent of their dependence on the external environment. Obviously, outsiders do not need to know about internal debates over succession issues; the continuity plan must be discussed and carefully developed before the details are publicly disclosed. But disclosure is essential to managing the firm's relations with business constituencies and the community.

The succession task force should first identify the various constituencies that need to be informed about the plan. Then the task force should develop a tailor-made strategy for informing each. The strategy should include systematic efforts to introduce the successors to these important outsiders and to connect them with influential government and community leaders.

Disclosing the timetable for succession to outsiders can also have internal benefits: It helps to keep the continuity plan on track. Once the details have been publicly disclosed, it becomes much more difficult for the owner-manager, or anyone else, to sabotage the process.

TWELVE: Develop a contingency succession plan, just in case.

Carrying out a continuity plan may, as we have mentioned, take five years or more. In that time, emergencies can upset the best laid plans. The owner-manager could die unexpectedly; so, in fact, could the chosen successor.

It is important to think about worst-case scenarios, and to spell out what would happen in the event of such developments. Like the continuity plan itself, the emergency plan should address ownership, management, and family considerations. For example, it might name an experienced non-family manager to take over as CEO until the owners can select and train a family successor. The plan might indicate how the ownership shares of the owner-manager should eventually be distributed. It might also call for the purchase of accident or "critical person" insurance to cover a significant portion of the business's debt.

These, then, are the 12 basic tasks of continuity planning. From this discussion, the overall characteristics of a successful continuity plan should be clear. First, the plan must be *strategic;* it must be based on a thorough analysis of future markets and the growth prospects of the business. Second, the plan must be *comprehensive;* it must acknowledge the complex interaction of family, ownership, and management issues. Third, the plan must be *feasible;* it must be based on a realistic assessment of what is attainable for both the family and the firm at a given juncture in their development. (The life-style expectations of the members, for example, cannot exceed the potential of the business for meeting them.)

Fourth and most important, the continuity plan must be *managed;* its design and implementation must be orchestrated by those with power to make the critical decisions. Managing the transition is the hard work of selecting the people and creating the structures necessary for moving a complex system from one generation to the next.

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