Institute for Family Business

Family Business Management Perspectives

Succession

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Succession

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BARCLAYS WEALTH

Series foreword

Mark Kibblewhite, Barclays Wealth

Barclays Wealth is committed to providing clients with solutions that enable them to successfully manage their wealth.

As part of this commitment we have chosen to support the Institute for Family Business in publishing its "Family Business Management Perspectives" series, which provides expert reviews of current ideas and best practice in the family business sector.

Family businesses power innovation and enterprise in the UK economy. They account for 65 per cent of the UK's 4.5 million private sector enterprises, produce over 30 per cent of our gross domestic product, and account for over 40 per cent of private sector employment, providing jobs to 9.5 million people – one job in three throughout Britain.[1]

It is vital that the contribution of family businesses is properly supported and maintained, yet too often they are grouped together with the small and medium-sized enterprise sector despite significant differences in terms of both opportunities and challenges.

Family businesses occupy a unique position in the market, they benefit from speedy decision making and a willingness to think long term. However, that in itself poses special challenges, especially managing the overlapping boundaries between family life and the business as well as succession planning to the next generation.

The "Family Business Management Perspectives" series aims to address these challenges by publishing current expert thinking and fostering best practice. The guides provide an accessible source of information and advice on key issues to help families devise strategies that ensure they approach their businesses in a more unified way.

I hope that you find this volume an informative and enlightening read.

Mark Kibblewhite
Managing Director
Barclays Wealth

Introduction

Grant Gordon, Institute for Family Business

Succession is the first guide to be published in the IFB's "Family Business Management Perspectives" series.

The transition of a family business from one generation to the next confronts owners with a complex set of decisions and, in most cases, they have to make these against a backdrop of confusing psychological and cultural pressures. The willingness of family company owners to plan for their succession is often a decisive factor determining whether their business survives, fails or is sold, and a well-structured approach to this planning is essential. Omitting to plan creates uncertainty and unnecessary risk.

The guide explains the psychological complexities that can make inter-generational business transfers complex, but at the same time provides family business owners with a thoroughly practical framework of advice and ideas to help them develop effective strategies for managing both leadership and ownership succession.

I would like to acknowledge the many experts who contributed to the research for this guide. Particular thanks go to the following family business authorities who provided their wisdom and insight to the publication: Åsa Björnberg, London Business School; Jonathan Burt, Barclays Wealth; Sarah Courtney, Barclays Wealth; Howard Hackney, Grant Thornton; Howard Leigh, Cavendish Corporate Finance; Barbara Murray, Family Business Solutions; Rob Myers, Barclays Private Equity; and Penny Webb, Familias & Co. I am also grateful to Simon Perry for his assiduous approach to this project in his capacity both as researcher and writer.

Grant Gordon
Director General
Institute for Family Business

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Piecing together the succession puzzle

We have known for a long time that family businesses represent the backbone of our economy. Recent research has shown that the retirement of the current generation of family business leaders will create a serious problem for future economic growth.

The European Commission estimates that 610,000 EU businesses a year could be changing hands in the period to 2015, and that up to 1.5 million enterprises could close because of the lack of obvious successors.[2] A similar picture emerges in the UK, where 100,000 family firms are calculated to pass from one generation to the next each year. Approximately 30 per cent of these transitions are estimated to fail.

This problem is further compounded by demographic changes. We have the prospect of some seniors extending their careers into their 70s and 80s, while next generation members – feeling they will not have the opportunity to make their mark in their middle years – may well decide to retire early from employment or take up second careers, creating a shortage of successors.[3]

In summary, family business succession issues threaten long-term economic growth, and could jeopardise the sustainability of jobs and livelihoods that depend on this sector. Similar concerns are already being hotly debated in the United States, where surveys have been reporting that the "baby boom" generation is not doing enough to plan and prepare for family business succession.

A puzzle *and* a paradox

On the surface, it is very hard to understand why so many family business owners either fail to plan for succession, or they leave it far too late, thereby risking the survival of their enterprise.

From a business leadership perspective, succession confronts family business owners with a straightforward set of strategic options. They might plan to appoint a family member to succeed them, or a non-family successor; or they might consider exiting via sale of the business (in whole or in part); or they might prefer to avoid the issue, adopting a "do nothing" strategy.

Each strategic option carries its own set of advantages, disadvantages, opportunities and threats, the scope and impact of which will vary from one family business to another. Genetics do not guarantee that families can produce entrepreneurial business leaders generation after generation. The financial needs of the family may also be an important factor (perhaps funds needs to be extracted from the business to provide for the senior generation's retirement).

Where the aim for family owners is to retain direct control over the business (and it is such cases that are our main concern in this guide), seeking a "family solution" by appointing a family member to succeed is seen as a particularly attractive option. Owners feel their personal ideas and values will have a greater chance of survival, that their sacrifices while building up the business will have been worthwhile, that they may be able to keep in contact with the business (possibly even retaining some influence over it), and that they can perpetuate for new generations the special opportunities of family business ownership and leadership.

However, appointing a non-family successor, either to a permanent position or as a caretaker, may become the strategy by default if no family successors are available for the task, whether through lack of motivation or lack of skill. As regards exiting, various possibilities will need to be considered, including for instance a management buy-out financed by private equity funding (a sale by the owner to the existing management team, maybe including family members). This solution offers a compromise between releasing liquidity and an outright trade sale of the business.

The final option – avoiding planning for a transition by adopting the "Do nothing" approach – throws up the central paradox of succession. Despite business founders professing that a "family solution" is their preferred course, in practice the dynastic dream is rarely achieved. Doing nothing is the least logical, the most costly, the most destructive of all the options – yet it is by far the most popular.

"I think there is an interesting analogy between running a family company and flying a plane. There's not much danger to anybody when the plane is in the third hour of a transatlantic journey, but at take-off and landing the craft is much more vulnerable to an accident. The point of succession is very much like landing and taking off again. It presents a radically greater threat of danger than is posed by any of the other periods in the history of the company."

Alan Crosbie (2000) *Don't Leave it to the Children: Starting, Building and Sustaining a Family Business*, Dublin: Marino Books, at p.105.

Why the "Do nothing" approach is so common

The differences between planning and doing nothing are quite stark. Succession may be an organised and gradual process, with a trained successor growing into the role under the owner's supervision and guidance; or, instead, it takes place abruptly and unexpectedly when the owner becomes ill or dies, in which case an unprepared family member can find the job suddenly forced upon them.

It really does not look like a difficult choice! So it's especially strange that, despite the logic of an apparently natural and predictable transition, "Do nothing" is the strategy business owners most frequently adopt.

Failure to address succession is often put down to a simple combination of the entrepreneur's instinctive desire to keep control of their creation, as well as a natural aversion to planning. But the true reasons are much more subtle and complex, based on quite understandable fears and anxieties. No one enjoys thinking about death or disability, choosing among children, or letting go of a prestigious job that may represent a lifetime's work. The US expert on organisational behaviour, Professor Ivan Lansberg, has categorised the factors that conspire to deter succession planning; those connected with the owner, the family, the employees and the general environment in which the firm operates (see Exhibit 1).[4] Understanding how these complex forces work in family companies is a vital first step towards successfully managing inter-generational transitions.

Exhibit 1: Resistance to succession planning

THE OWNER

Fear of mortality. Often a particular problem for entrepreneurs, whose success is usually driven by a powerful ego and the conviction that they control their own destinies.

Reluctance to let go of control and power. Many owners become entrepreneurs precisely because of a strong need to acquire and exercise power over others, so surrendering authority can be a huge sacrifice.

Loss of identity. Owners often identify strongly with the business, seeing it as a personal achievement that defines their place in the world. Letting go can feel like a loss of personal effectiveness.

Bias against planning. Successful management and ownership transitions are generally the result of long-term planning, but owners tend to be "doers" rather than planners.

Inability to choose among children. Under business principles, the choice of a successor should be based on competence, but family values, dictating that children should be loved and treated equally, can prevail.

Fear of retirement. Owners of family firms are often effectively "in love" with their businesses, and the thought of moving out of day-to-day work into "the vacuum of retirement" can be seen as little short of a life-threatening event.

Jealousy and rivalry. "Nobody can run this business as well as me" is a common view, and when owner and potential successor are father and son, this factor can introduce an extra psychological dimension of fear and hostility.

THE FAMILY

Spouses' resistance to change. The owner's spouse is frequently reluctant to welcome and encourage a partner's move into retirement. He or she, too, may not relish the prospect of giving up many key roles played in and around the family firm.

Family taboos. Cultural norms discourage discussion between parents and children about the family's future after the parents die, particularly as regards financial matters. Succession planning involves open discussion of precisely these topics which can be uncomfortable and is thus usually avoided, even in the most well-adjusted families.

Fear of parental mortality. Children typically have deep-rooted psychological worries about abandonment and separation, and such feelings can be too painful to permit participation in discussions about succession.

EMPLOYEE AND ENVIRONMENTAL FACTORS

Job insecurity. For many employees (especially senior managers), their close personal relationship with the business owner constitutes the most important advantage of working for the family firm. They see successors as a potential threat to their job satisfaction and security.

External worries about change. Outside the company, important customers are also likely to prove resistant to change, reluctant to trust a new face. Similarly, the unwillingness of other entrepreneurs – the owner's peer group – to deal with their own succession, acts to reinforce the founder's bias against planned management transition.

It is clear that family business owners have to face up to a range of complex and interrelated processes – psychological, emotional, individual, organisational and external – that can all operate against any kind of planned effort to manage succession. It's hardly surprising, therefore, that so few of them are willing and able to consider effective succession planning, but instead avoid the issues, preferring to live with ambiguity.

A systems perspective on succession

Become an observer of your system

Family life and business life do not rest easily together – there's a culture clash. Family life is emotion-based with its members bound together by emotional ties; it tends to be inward-looking, placing high value on long-term loyalty, care and the nurturing of family members. In addition, much family behaviour is influenced by the subconscious – for example, the need for parents to treat children equally, and the need for fathers to be role models for their sons. Business life, in contrast, is based on the accomplishment of tasks, with the emphasis on performance and results; it is outward-looking, built around contractual relationships in which people do agreed jobs in return for agreed remuneration; and, for the most part, behaviour is consciously determined.

In family businesses, these radically different, essentially incompatible, cultural domains not only overlap, they are actually interdependent. Their differing purposes and priorities produce the tensions that exist in family firms, creating at the overlap points operational friction and conflicts in values for owners and other family members.

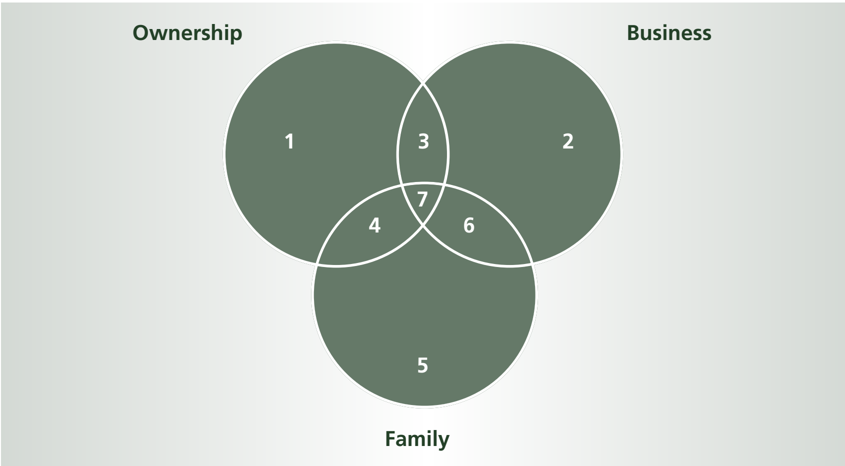
When this happens it is not surprising that family business people generally shy away from working through difficult issues like succession, and, as we have seen, avoid such discussions. They often find it very hard to talk about these topics, let alone to analyse objectively what may be going wrong and what needs to be done to ensure problems do not interfere with the efficient functioning of the business, or that family life is not adversely affected by what is going on in the business.

Controlling the culture clash

While difficulties arising from the overlap of family and business domains cannot be avoided entirely, successful families devise strategies that help them to keep the overlap under control, and one key component of these strategies is learning to take a step back and to become an observer of their family business as a *system* – in short, to develop a mental model of how their family business system works. This is where the famous three-circle model contributes so much, because it helps us look at what is going on, coolly and calmly, and from a distance (see Exhibit 2).[5]

The three-circle model offers the intellectual equivalent of an aerial photograph, allowing a family enterprise to be seen as a system. A healthy family business system includes three subsystems operating and cooperating within it – ownership, the family and the business. Focusing on the subsystems highlights the complexities of family companies by identifying the motivation, expectations and fears of individuals within the three groups. It also highlights how potential friction and conflict are inevitably built into the fabric of family businesses, because the different stakeholders see the world differently and want different things from the business.

Exhibit 2: The three-circle model



Everyone involved in a family business falls within one (and only one) of the seven sectors created by the three circles.

1. External investors, who own part of the business but who do not work in it and are not members of the family.
2. Non-family management and employees.
3. Owners who work in the business but who are not family members.
4. Family members who own shares in the business but who are not employees.
5. Family members who are not actively involved in the business either as employees or owners.
6. Family members who work in the business but who do not own shares.
7. Inhabiting all three circles are owners who are also family members and who work in the business.

So the starting point for families is to adopt a systems perspective and use it to help understand the dynamics unique to their family business. A useful practical exercise is to enter the names of all the people in the system who occupy positions 1 to 7.

Having grasped how the three-circle model represents the family business system and the people in it, we are now equipped with a logical framework that helps us consider the impact of three types of change going on in the system at the same time:

a. **Change in the family** – e.g. what will happen when a next generation member wants a career in the business, or when someone retires?

b. **Change in the ownership profile** – e.g. what will be the consequences of share transfers being made to the next generation in terms of the balance of power between owners / branches, the impact on management and direction of the business, the vision for the enterprise and the expected investment returns?

c. **Change in the business** – e.g. how will the business's needs for investment funds, management talent and growth be dealt with by the family and owners?

These changes take place as family business ownership itself evolves from the simple first-generation controlling owner structure, through the sibling partnership stage (where ownership has been divided among a group of sons and daughters of the original family) to the complexities of the third-generation-and-beyond family business, called a cousin consortium (succession issues relating to which are examined in a special section later in this guide).

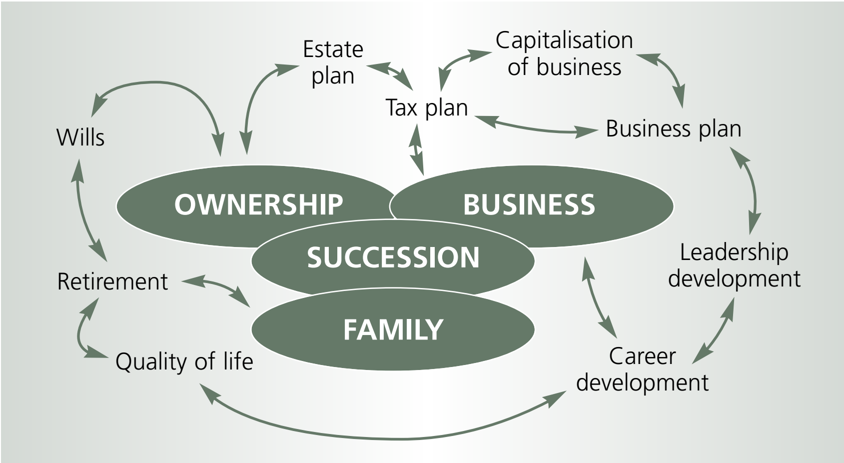
A model for succession

The consultant, teacher and writer on family business matters, Dr Barbara Murray, builds on this three-circle model in order to help us understand the complexity of succession transitions. She advocates that the whole succession process is looked upon as a major change that will have consequences on all aspects of family, ownership and business life; therefore, a systems approach ensures that the big picture is in mind at all times, and consequences can be anticipated and planned for, not reacted to.

Many families underestimate the amount of time and effort required to take a complex system like a family enterprise through a change of this magnitude. When there is a sense of being "against the clock", often decisions are made that appear to offer quick technical solutions (like "we'll set up a trust") but do not allow for the discussion and exploration needed to find the best solutions (a trust may be the best thing, but only if all the consequences are known and agreed to).

Only those who plan well ahead of time for succession (at least five years before) can expect the succession process to take the form of an orderly progression of discussions, decisions and implementation of solutions. And, even then, this process (discuss–explore–decide–implement) can be messy, because things may not work out as well as intended and some backtracking may be necessary, as illustrated in Exhibit 3.[6]

Exhibit 3: System transition issues – some examples



The exhibit shows the basic three-circle model, this time in the context of succession, enclosed by what amounts to the real work involved in managing this process. These are emotionally sensitive issues such as leadership development, retirement, estate planning and so forth – all of which are interlinked and integral to the underlying model, and all of which need to be addressed and resolved before technical "solutions" come up for consideration. Taking a systems approach is like project management: it means keeping track of your progress with all of these topics and progress with the overall task of managing succession. That is a big "to do" list, especially considering that there is a business to run and lives to be lived.

Even though people like to think there is a logical, rational, economic basis for all the decisions, research has consistently shown that underneath there is a great deal of emotional spadework to be done. By-passing the emotionality of the discussions needed may lead to faster decision making, but without doubt, it leads to short-term solutions that unravel when the consequences begin to hit home for those who were relevant but not fully consulted. There are no technical quick-fixes that can guarantee a successful transition.

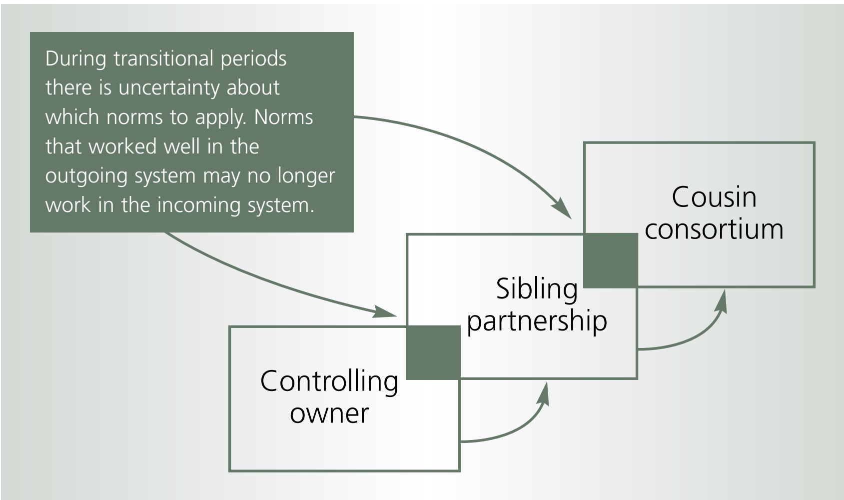
Succession as a "system-in-transition"

With a firm grasp of the three-circle model, we can begin to think about the main transition tasks that have to be handled in each of the three subsystem arenas, and within the system as a whole, including preparing the senior and junior generations (developmentally and psychologically) for the next stages in the succession process.

A key point about these transition tasks is that they do not take place overnight. What happens in most successions is that there is a transitional period (sometimes lasting many years) during which the business is effectively "between systems". So, in owner-manager to sibling partnership successions, as the transition progresses the business loses certain of its owner-managed system characteristics (heroic culture, centralised decision making, and so forth) and gains more sibling partnership characteristics (shared vision, effective teamwork, etc). What this means is that, during the transition, there is a hybrid business that is transiting from one model (owner-manager) to another (sibling partnership), and – as discussed in the "Second generation businesses and beyond" section later in this guide – this can be deeply confusing for all parties.

The focus on transition periods, therefore, is vitally important because they are often the most critical and challenging phases in the development of family businesses. Research has shown that the first transition – the one in which centralised control gives way to shared control – is the most complex and challenging form of change to be encountered (hence the notoriously poor survival rates after the first succession). But all transitions by definition are periods of uncertainty when decision makers feel at their most anxious and vulnerable – understandably so, because that is when the organisation makes fundamental choices that will profoundly shape its future (see Exhibit 4).

Exhibit 4: Family business systems in transition



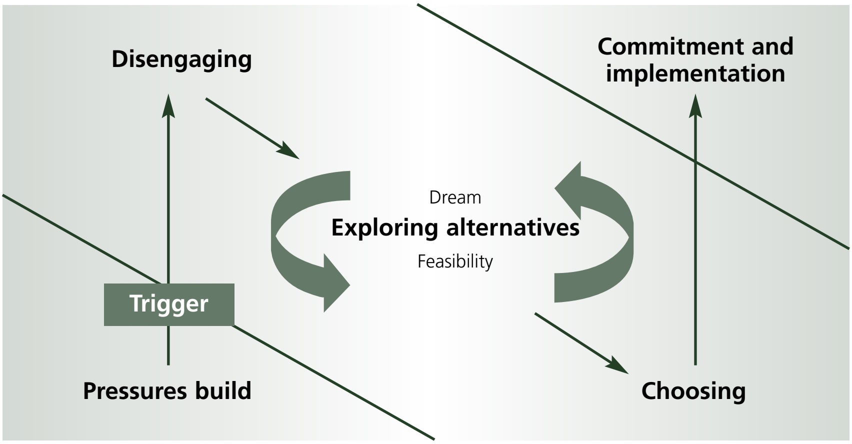
Source: Adapted from Gersick, Lansberg, Desjardins and Dunn (1997) – see note 7, "Notes, references and resources" section.

The transitions are opportunities for reassessment of the strategic direction of the business and understanding the underlying structure of transition periods helps us learn to manage these periods more effectively. Transitions contrast with the periods of stability in the middle of an ownership stage when the enterprise is committed to a particular ownership structure or organisational design, with stability providing the opportunity for focus and growth.

The pattern of transition

While there are basic differences between the issues that arise in the transition from controlling owner to sibling partnership, and those that arise in the transition from sibling partnership to cousin consortium, there is a fundamental pattern common to virtually all transitions that allows us to understand and predict what will happen within them.[7] The overall time span of a transition may be a few months or many years, depending on its type and the complexity of the system, but all transitions from one stage to the next follow the same basic pattern involving six distinct stages (illustrated in Exhibit 5).

Exhibit 5: Transitions evolve in predictable phases



Source: Adapted from Gersick, Davis, McCollom Hampton and Lansberg (1997) *Generation to Generation: Life Cycles in the Family Business,* Boston MA: Harvard Business School Press.

1. Developmental pressures build up

The developmental pressures that accompany families and their businesses are constantly at work, creating the need, and a readiness, for change. Individuals age, the family dynamics evolve, and the economic environment is continually in flux. Family business stakeholders want to know what the future holds.

Family enterprises normally resist change for as long as they can, protecting their habits and routines, but sooner or later the pressure to change becomes irresistible. At those moments of "readiness", change is initiated by a trigger.

2. The trigger

A trigger sets the transition in motion, and all the accumulated pressure is released, giving the system the opportunity and the energy to make fundamental changes. The trigger – perhaps a mandatory retirement age, a health scare, or just a conversation – may not seem very significant in itself, but its consequences can be dramatic. Once the transition has been "triggered" the actual work begins, with transitions composed of three sequential tasks – disengagement, exploring alternatives and choosing – although some families move back and forth among the tasks.

3. Disengaging

The first task is to acknowledge that the era of the old structure is coming to an end, and a new one must be found. Disengagement may be symbolised by, say, a public commitment to a retirement date, or a timetable for the career advancement of leadership candidates in the next generation. Perhaps at the heart of this phase is the idea of leaders creating acceptance in the environment about change, without which anxiety will inevitably be generated (among family, employees, managers, suppliers and so on) by prematurely selecting a solution.

4. Exploring alternatives

This involves considering different forms for the new ownership, management and leadership structures, as well as the adjustments needed in the family as the seniors' lives change and the juniors move into more prominent and more responsible roles. Possible scenarios need to be evaluated and their viability measured against the dreams, talents and capabilities of the participants. Keeping the doors open to exploring new possibilities is the hardest thing about a generational transition. The anxiety is there, with people wanting a new leader to replace the old leader, wanting a resolution, wanting to feel they are safe. But it's vital to take time to explore and think in detail about what is the best design for the future. Should it be a group of people? Should it be one? Should it be a family member? Should it be an outsider? Managing this exploration phase is the most important leadership challenge of transitions.

5. Choosing

While this task is often given the most attention, it is actually just one step in the process, and can only be successful if it follows adequate preparation. Successful transitions end with a clear choice, when competing alternatives are put aside and the system moves to the final transitional stage – commitment. This can be emotionally tough for those who face big changes in their lives.

6. Commitment to the new structure

At this time the family business formally declares itself ready to operate differently, or affirms that any testing of new structures is over. The stage involves facilitating and implementing the changes in the structure, such as the withdrawal of senior generation leaders from critical roles in operations, important changes in support systems and individuals, and the implementation of new policies and routines.

Reconfiguring the system

In this section, we've advocated taking an "aerial view" of family business systems to help understand how they operate during succession transitions. A final thought concerns our starting point, the three-circle model, and how it has to be deconstructed at every generational transition – and then put back together again. Family businesses have a three-circle system when they enter their succession transition process, and they have a three-circle system when they exit that process, but, in between, the three subsystems have been taken apart, reconfigured and put back together again.

> ***"What happens to the family business system in transition is like a jigsaw. All the pieces fit at a given moment in time, but then all the shapes are redesigned, with the tabs and blanks reconfigured – in other words, how the pieces interlock is re-engineered. The end-product looks little changed. We start with a family business, and after the transition that's what we end up with, but underneath it has been comprehensively re-engineered."***
>
> **Dr Barbara Murray,** personal conversation.

This re-engineering is the work of the succession transition process, and the tasks involved form the subject matter of the remaining sections of this guide.

The personal challenge: Preparing for a new life

Relinquishing control – an emotional minefield

In Exhibit 1 (page 11) we reviewed the factors that tend to deter family business leaders from succession planning, including reluctance to let go of power and control, and sometimes envy and rivalry directed at successors. "Nobody can run this business as well as me" reflects the view of many owners struggling with succession, encapsulating their sometimes competitive feelings towards potential successors waiting to take over control of their organisation.

In brief, what stops owners from letting go is their need for security in four areas:[8]

- **Personal financial security** ("Do my spouse and I have the resources to live comfortably for the rest of our lives?")
- **Family security** ("I'm afraid the family will fall apart if I relinquish my leadership position.")
- **Organisational security** ("Can the business function without me?")
- **Psychological security** ("If I'm not the leader of this company, who am I? And what am I going to do?")

Once business owners achieve a comfort zone in each of these areas, they can move on to the tasks of planning and implementing succession. The key first step for them is to focus on separating their personal identity from the family enterprise, and preparing themselves emotionally and financially for a new phase of their lives that does not revolve exclusively around the business.

Financial peace of mind

Financial and estate plans should safeguard assets from taxes and ensure the senior generation's security after retirement. It is a disturbing idea for most entrepreneurs that they might be financially dependent on a business in the hands of an unproven successor. Parents therefore need a secure source of income that is preferably separate from the family business, to provide post-retirement independence and confidence.

Broadly, financial peace of mind in retirement can either be achieved by business owners continuously taking money out of the business during their period of tenure, or leaving this money to build in the balance sheet so that, on retirement, a restructuring can be arranged to transfer personal wealth to the departing owner. Both strategies have pros and cons. Seniors can substantially reduce or delay tax liabilities when the business is passed on, but this requires careful planning and professional advice.

> ***"A new kind of goal: Planning and implementing succession can be as creative and fun and challenging as launching and growing a business. The goal now is not to build the business but to successfully pass it on while at the same time shaping a satisfying, enjoyable future for yourself. Incumbent CEOs who channel their energy and enthusiasm to this new goal are far more likely to relish the succession process than if they dwell on a wish to continue running the business forever."***
>
> **Craig E. Aronoff, Stephen McClure** and **John Ward** (2003) *Family Business Succession: The Final Test of Greatness* (second edition), Marietta, GA: Family Enterprise Publishers, p.14.

Emotional ties

Emotional disengagement will probably be far more difficult than financial disengagement and, at a personal level, it is most likely to be successfully negotiated if seniors are retiring *to* a new life of interesting activities rather than *from* their old one, which implies that their useful and productive days are over. So plans should focus on how best to use new-found leisure time, and also organising future work activities. Many people set out on a second career once they have retired from their first.

Also, "retirement" for family business seniors is something of a misnomer. Their name will always be above the door and they will always be connected to their family and the business. So the challenge for family company leaders has less to do with deciding how to leave their business and much more to do with working out how to reshape their connection and attachment to it.[9]

Bear in mind also that seniors can remain an important resource to the family business, even though they have passed on day-to-day operational responsibility to their successors. As part of their succession plan they can assume new, productive roles in the company, like taking on special project development. Seniors can also play a vital role in fostering management continuity, connecting the new managers with individuals and organisations that may be important to the future success and prosperity of the company.

Letting go gracefully

Succession is much more likely to proceed smoothly if seniors step down when they are still in full command of their abilities – but this is much easier said than done.

Those that hold on to their positions for too long tend to become "out of phase" with their successors who themselves are likely to be in their middle years and impatient for independence, recognition and opportunities for leadership. So there's a system bottleneck, and the longer the delay the harder it becomes to undertake the necessary work. This can be one factor contributing to the build up of pressure in the family business system, until a potentially damaging trigger event releases (or forces) the transition process.

There is evidence that family business leaders who enjoy most success in passing on the business tend to start exploring disengagement as early as their late 40s (and certainly no later than their 50s). Often they look forward to fashioning a new role for themselves, maybe becoming an ambassador for the business, starting a new enterprise, building a charitable foundation, or becoming a teacher or a consultant. The case note in Exhibit 6 illustrates this trend.

Exhibit 6: A case note on disengagement – Christopher Oughtred of William Jackson and Son

Christopher Oughtred began planning his exit as fifth generation Chairman of William Jackson and Son bakers from the late 1990s, at which time he was in his mid-40s. He created a five-year plan during which he set milestones and targets for key aspects of his succession solution. Other family members were assessed and prepared, the business streamlined, and he developed a post-succession plan for himself and his wife, as well as his "next career".

Christopher felt able to sense the time/age coordinates required to synchronise his own departure with developing readiness in the successor generation. Compared to many seniors in thriving family businesses, his departure was relatively early, but as he explained:[10] "The younger a person is when passing the baton, the more constructive the process is likely to be – probably because there remains unlimited opportunities for achievement and interest in other areas. The early to mid-50s are probably ideal. I remember members of our fourth generation who soldiered on into their late 70s and became frightened of life after work – probably because there was so little else to look forward to."

A public commitment in the form of a precise timetable for departing, included in a written succession plan, will help to reduce the possibilities for confusion or delay. This does not mean that seniors must cease to play any role in the business, but it does mean that their new role has to be well defined so as not to encompass participation in day-to-day management of the business.

Preparing the family and the business for a successful transition

In the previous section it was explained how owners, reluctant to step down, need to build security in four areas – personal, financial, family and organisational security. We focus here on the last two of these, and the goal is for leaders to create a family business that can sustain itself when they have departed the scene.

When the planned outcome of any succession transition is to strengthen the family's resolve to continue the business as a family-owned company, a means of productively involving the wider family is critical. Establishing a family assembly or council provides a forum for family communication, policy making, planning and conflict resolution, and enables the family to formalise its commitment and develop a cohesive approach to the business.

Once it is decided that the strategic objective is to keep the business in the family, a succession plan must be put in place and strong leadership is required to guide the business through the transition. Succession planning, done well, takes a long time, and it tends to be successful when it results from establishing a partnership with the next generation based on mutual responsibility, respect and commitment. Both seniors and juniors should view succession as a planned process rather than an event (see Exhibit 7).[11]

Exhibit 7: Succession checklist

1. **Start planning early**
2. **Discover expectations and examine options**
3. **Encourage cross generational teamwork**
4. **Develop a written succession plan**
5. **Consult family and colleagues and seek outside help**
6. **Establish a training process**
7. **Renew the family's values and vision**

Start planning early

Sadly, it is too often the case that the first serious thoughts about succession are prompted by the death or ill health of the family business leader. As well as the potential for serious damage to the business, this will be a time when the family is least able to give the matter proper consideration.

So the succession process should be carefully planned and take place over time. Current thinking recommends a period of between 5 and 15 years, with owners beginning to think seriously about succession at about 45 to 50 years of age, and planning to retire at about 60 to 65.[12] Typically, when this phase is started, the next generation would be 25 or 30 years old, with their formal education and outside work experience behind them. Beginning the succession process at this stage allows a period of around a decade, which is ideal when making a choice from among multiple candidates, and it also facilitates the development and grooming of potential successors, giving them ample opportunity to grow into their roles, earning the respect and confidence of the senior generation and other stakeholders.

A 10-year timeframe also allows business leaders to make the best use of their resources, such as enlisting board members' help in evaluating candidates, using talented non-family executives to mentor potential successors, or creating a succession taskforce to assist in the planning and decision making. During the transition the aim is for the owner to gradually separate his or her identity from that of the business and become accustomed to new perspectives and a new role. Meanwhile, the family will have adequate time to reflect on the implications of decisions, and a gradual succession timetable can be structured and agreed.

Discover expectations and examine options

This corresponds to the "Exploring alternatives" stage in the Transitions Model discussed on page 21. Possible succession scenarios need to be evaluated and their viability measured against the dreams, talents and capabilities of the participants. This is a process of testing, learning and revision, and managing this exploration phase is the most important leadership challenge of transitions.

In particular, it is worth putting a lot of effort into discovering and clarifying the nature of hopes, expectations and ambitions held by family members (whether working in the business or not). Assumptions should never be made about what individual family members will want in any given situation, and open communications and transparency are favoured as opposed to secrecy, which has no place in the process.

Encourage cross-generational teamwork

The intensity of emotional engagement within the family business tends to increase with each generational transfer. This can have positive and/or negative effects caused by the "emotional baggage" (unresolved issues left over from the previous generation) that usually lingers rather than disappears. For example, if a parent has not chosen between two children because they are trying not to upset anybody, then after the parent has left the scene the children will often "fight it out" and try to resolve a critical issue that could have been sorted out earlier on (and much more effectively).

The establishment of inter-generational teamwork is vital to identify potential problems, so they can be discussed and resolved. Assuming such issues will just be forgotten about over time can be a serious hazard; the problems generally resurface later on, more complicated and more difficult to resolve.

The success or failure of succession often rests on the quality of relations between senior and next generation members. There's no substitute here for leadership by the senior generation. If possible, the elder generation should become coach and mentor to the next, leading to a staged shift of responsibility and control over time. Father–son and other family rivalries can inhibit the development of this scenario, but such inter-generational partnerships, when they work, are powerful and effective.[13]

"In our consulting work we often encourage inter-generational communication by prompting the next generation to formulate their questions to the seniors. Questions like: 'Do you really want us in the business? In what capacity? How do you want us to develop? What difficulties have you had during your time in the family firm? What would a successful transition look like for you?' And then we work on a similar basis with the seniors, helping them draw up questions that will clarify the junior generation's perspective."

Penny Webb, executive coach, family business adviser, and CEO of specialist consulting firm Familias & Co. Personal conversation.

Develop a written succession plan

Families need to establish formal mechanisms, rules and procedures as a way of helping them to avoid (or at least manage) tensions and divisions, which, if left unchecked, interfere with the effective functioning of the business. Setting up a family council and drawing up a written family constitution (recording the family's agreed policies on the business and other issues) tends to provide a structural framework that helps family members focus on the important issues, progress through problems and find ways of working with each other.

For the same reasons, developing a *written* succession plan that incorporates a step-by-step approach to dealing with the practical and psychological aspects of the transition process will prove extremely valuable. The thinking and reflection required to formulate and write down the stages of the process will be useful in itself, and the existence of a formal document that everybody is aware of, and has been consulted about, will significantly reduce the potential for doubts and misunderstandings. As a minimum, the plan should cover the points listed in Exhibit 8.

Exhibit 8: A written succession plan – the basics

Core plan objective. To prepare the organisation for the transition and for a successful future after the senior generation has left the scene.

Leadership and skills development programme. To include next generation outside work experience and a preliminary outline of planned career paths within the business.

Choosing a successor. The process, timing of the decision, the business criteria to be employed, whether the decision is delegated to an independent board or a committee of family members, plus how the decision is to be confirmed and communicated to the family, the company and outside stakeholders (like suppliers and key customers).

Seniors' exit plan. A timetable plotting each phase of their reduced participation in the business with defined responsibilities for any legacy involvement.

Successors' expanding role and responsibilities. Drawing up a skills development programme including a timetable to help focus attention on important issues that need to be planned and managed.

Organisational succession. The structure and functioning of the management team after the transition, such as new career paths for key managers and future family participation.

One aspect of successfully managing the planning process will mean recognising when parts of the original plan just do not work. For instance, a favoured successor may not be able or willing to take on the job. Also, planning is often a messy process – rather than an orderly progression there will be backward as well as forward moves – and managing succession means preparing for setbacks and being flexible enough to make adjustments and to take a fresh approach if needed.

Consult everyone and seek outside help

Ideally appoint a succession working party including the key stakeholders – the owner, selected family members, non-executive directors, key trusted employees and outside experts. The group will be responsible for developing the succession plan and monitoring its implementation. The latter is important in ensuring that the plan accomplishes the desired organisational results.

Owners should try to involve as many people as possible in the process, in particular:

- A strong, independent **board of directors,** as well as providing strategic input and support for management, is an invaluable source of expertise and objectivity during succession planning.
- Conversations with **peer groups** – business colleagues who are themselves facing, or who have already been through the succession transition – will almost certainly be helpful. Sharing and comparing experiences through networks such as the Institute for Family Business can serve as a much-needed source of ideas, strategies and support.
- Family business **consultants and other professional advisers** who have a good understanding of family firms are often skilled in dealing with these issues. But seek their input after you have thought about the process, not before: use experts to comment on your thinking, not to do your thinking for you.

Establish a training process

Many owners assume that their children will want to enter the family business, or they put pressure on them to do so. Inadequate preparation and training, or undue pressure, condemn many innocent young people to unhappy careers that are neither satisfying for them nor productive for the business. Preparing the next generation for leadership is the subject of the "Developing effective successors" section (page 37).

Renew the family's values and vision

Succession should also be seen as an opportunity to review and refresh the family's values (what a family and its business stand for) and its vision (the shared sense of where the family and its business are headed).

Values and vision provide a major source of strength and resilience for the family firm, and many family businesses have achieved competitive advantage through a values-driven approach. But if values and attitudes remain static and entrenched in the past, the family risks creating a vacuum in which disconnection, communication failures and conflict are likely to flourish.[14]

Renewal of a coherent ownership vision is required with each generational transition of the family business, and the relative instability and flux of the transition process itself provides a perfect opportunity for the family to collectively engage in this task, before outdated policies and positions take root.[15]

> ***"A great succession is one that hardly anybody notices. It is a non-event, an evolutionary process arising from careful planning and the artful management of expectations over a period of years. By the time the baton is finally passed, the word throughout the family and the business should be, 'Oh, that's what everybody expected.'"***
>
> **Craig E. Aronoff, Stephen McClure** and **John Ward** (2003) *Family Business Succession: The Final Test of Greatness* (second edition), Marietta, GA: Family Enterprise Publishers, p.2.

Developing effective successors

Nurturing next generation leadership does not come easily to most entrepreneurs, but successor development is critical if the business is to be sustained and revitalised.

Succession should involve a well-planned partnership with the next generation, and parents must take responsibility, particularly for ensuring their children receive a sound, broad based education; that they develop self-esteem; that they learn about money, business and investment; that they have extended outside work experience before joining the family business; and if they do join, that there is a personal development and training programme for them that's both relevant and worthwhile.

Joining the business – an option not an obligation

Long before management succession becomes an issue, many owners assume that their children will want to enter the family business, or they put pressure on them to do so.

While the children are growing up, it is important to try and keep an open mind about this possibility, and to remember that their perception of the business is being formed mainly on the basis of what senior members tell them about it. If they regularly hear complaints about the problems of running the firm then it's likely they'll shy away from the prospect of joining and choose other careers. But, equally, if the children are conditioned from birth to believe that the business represents a "golden inheritance" and that perpetuating it is their destiny, then they'll tend to view joining the firm either as an easy option or as a weighty obligation, rather than as an opportunity.

Senior generation members should try to find a balance that enables their successors to share their dream, while making sure excessive pressure is not put on them to feel that they have no choice but to be part of it. Any enthusiasm for their entry to the firm should be balanced by making it clear that the family will be understanding and supportive should they choose other careers.

At the end of the day, their decision to join should be freely made and based on a thorough understanding of the privileges and responsibilities that come with the job, and an acceptance of the hard work and commitment required. Inadequate preparation and training, or undue pressure, condemns innocent young family members to careers that are neither satisfying for them nor productive for the business.

Once the children have completed their education and become young adults, they should be encouraged to pursue other careers and work opportunities before joining the family company (see Exhibit 9). The most accomplished successors in family firms have generally spent much of their early working lives outside the family business.

Exhibit 9: Starting careers outside the family firm – key advantages

Self-esteem and confidence. Succeeding at something, independently and unsheltered by the family, helps to build self-esteem and confidence.

Wider business experience. Learning how other industries and firms work will benefit junior generation members throughout their business careers.

Credibility with non-family employees. Potential successors who join the family business with some serious outside work experience under their belts will improve their credibility, and will have a head start in terms of earning the respect and support of non-family employees.

Providing training and development opportunities

A programme to foster the personal development of potential successors should be initiated early, enabling evaluation of their abilities and – looking ahead – their suitability for leadership.

The resulting personal development plan acknowledges the attributes and skills that potential successors already possess, and lists the competencies that need developing. The plan provides a timetabled programme for acquiring these skills and a means for measuring progress.

While learning every job on the way up can have a value in particular businesses, the development of managerial talent is a long process and care should be taken not to waste time on direct experience of menial tasks simply for its own sake. Try to make sure potential successors have an opportunity to make an independent and visible contribution to the business. Overall, the important point is that the training should be worthwhile and appropriate in relation to the agreed career development strategy.

Seniors need to be aware that because of the emotional involvement with their offspring, as parents they can be poor teachers, so they should encourage / help young family members joining the firm to establish a special relationship with a non-family mentor figure within the organisation. A key manager who has been with the firm for a long time and who knows the business inside out will often be available to take on this dual role of teacher and friend. For a young person joining a family business (see Exhibit 10), a mentor relationship can operate largely free from all the emotional aspects of the family connection, and is almost always valuable.

Exhibit 10: Guidelines on integrating the next generation

Define their roles. Conflict and uncertainty over their functions in the business can be a major source of tension. Consider separating responsibilities, either on the basis of operational criteria (e.g. production and marketing) or, if the business lends itself to it, geographically.

Set objectives and provide feedback. Employees, including young family members, need to know what is expected in their jobs. They also need regular feedback about their performance, including recognition for achievements and constructive advice on aspects of their work that need improving.

Pay the next generation the going rate. Many owners pay their offspring either far below or far above their true worth. The fairest and healthiest remuneration system is to pay family members the market rate for their jobs, as though they were working for another firm. Other, less objective systems generally lead to resentment and conflict.

Evaluating succession candidates

In evaluating candidates for succession, Howard Hackney, partner and head of family business at accountancy firm Grant Thornton, advises families to look at three key factors – skills, commitment and support:

- **Skills.** Unlike technical skills (which by and large can be learned), this refers to fundamental skills in the areas of intellectual ability (independent thinking, judgement and flexibility), organisational skills and, last but not least, people skills (understanding what it is that motivates people and gets the best out of them).
- **Commitment.** Whether possible successors have the strength of commitment and motivation to take the reins and the desire to drive the business forward. It is surprising how many actually do not have this desire, even though the senior generation often expect it to be present instinctively.
- **Support.** Whether candidates seeking a leadership role have the support and respect of both the rest of the family and non-family employees. This support is vital to give the successor the authority to lead.

Solid qualifications under all three of these headings are required – ticks against just one or two of them usually mean candidates will not be up to the job.

An equally important issue concerns who is the right person to be asking these questions and making the assessments? Although it is the family business leader's responsibility to initiate and oversee the succession process, experts warn that, because of possible feelings of jealousy and rivalry, family business seniors should not be responsible for the selection of their own successors.[16]

To avoid these dangers, the advice and assistance of a strong board of directors is invaluable, both in assessing the capabilities of family members in the business and any non-family candidates, and in making the final decision. In particular, an experienced and independent non-executive director may be able to offer a perspective free of the emotional dynamics in which the senior generation may be caught up. Outside professional advisers can also provide an extra source of objectivity.

Choosing a successor

Regardless of who is making the choice, consideration of succession candidates from within the family raises difficult issues.

Sometimes, of course, the choice is straightforward – there may be a single successor who is both capable and committed and who, during the succession planning process, grows naturally into the role. But for a small minority of families the outmoded tradition of primogeniture dictates that the eldest son is their automatic first choice. Although this eliminates uncertainty and reduces the likelihood of next generation rivalry, such a rule often results in the appointment of a leader who is less qualified than other candidates.

Treating children equally

Choosing from among "equals" also raises problems. Family members should be recruited into the firm only if, on business grounds, they possess the skills needed to carry out the job effectively, and exactly the same principle should apply to the appointment of potential successors, even if this offends the family norm that all children must be treated equally. There are cases, however, where family businesses actually find themselves without a leader because owners prove unable, or unwilling, to face up to the difficult decision of choosing a successor from among their children.

Some seek a compromise here, involving the rotation of management responsibility among the children. The downside is that by the time that the family member gets to grips with this difficult and central job, their term ends and their brother or sister takes over.

Another group advocates shared management under which there is no leader in the accepted sense, but a partnership among family members with decisions taken jointly. Again this solution presents risks, but there are circumstances in which it can work, especially where the business readily divides into clearly defined and largely autonomous segments, but it requires a high degree of trust and harmony. Even then, owners should agree on a method of resolving deadlock.

Don't overlook daughters or in-laws

Daughters often possess greater qualifications for the leader's job, demonstrated by strong early career achievement. And the absence of the potentially troublesome father–son relationship can smooth a daughter's rise to power.

The involvement of committed sons-in-law or daughters-in-law can provide an additional pool of potential next-generation leaders and bring new dimensions of strength to the family business, but the common occurrence of divorce can have a negative impact when it involves an in-law who is in a key management position. Following separation some families are able to draw a distinction between family and business considerations, and the in-law continues to work in the business. Others find this untenable and the in-law has to leave. Families can anticipate such problems through pre-nuptial agreements that set out how assets such as company shares should be divided in the event of divorce.

Ultimately, the risks of a potential marriage breakdown have to be weighed against the benefits an in-law can bring to the business.

What if no one is interested or up to the job?

Judging whether someone has the capacity for the job is a subjective affair. Also, it is possible that although someone may not be up to the job at the moment, they could grow into it in the future. This situation therefore involves striking a balance between, on the one hand, cutting the family member off from opportunity, and, on the other, giving them a chance to make the grade. Third party advice can play a key role both in helping a successor sort out priorities and objectives for their future careers, and for owners in objectively assessing the business acumen of the next generation.

Owners of family enterprises generally have a huge amount of emotional capital invested in the business, and wish to see it continued by their children, but it may be self-defeating to force a family transition if the right circumstances do not exist. If, after an honest assessment, the conclusion is that there's little chance of a successful management transition to the next generation, the senior generation should begin to look for some alternatives:

- **Appointing non-family managers.** The major issue here is one of trust – will the family's principal store of wealth be safe in the hands of an outsider? On the other hand, family members in the business, aware of the problems they'd have in filling the role, often prefer reporting to a respected professional manager. As discussed later, the appointment of outside managers becomes a particularly relevant consideration once the family business reaches the third generation and beyond.
- **A "caretaker leader"?** If the obstacles to family succession are temporary (e.g. when successors have not yet acquired the experience to take over from the senior generation), a caretaker leader can be appointed to run the business until the transition within the family eventually takes place. It is not uncommon for such a caretaker also to act as mentor to the succeeding generation, overseeing their career development plan as they prepare for a future leadership position.
- **Dividing the business.** If concerns about sibling rivalry effectively preclude the next generation proceeding together, it may be worth considering a division of the company. Assuming the business can be structured to allow a demerger, members of the next generation take over different parts, which then develop independently. But companies should not take this route purely for family reasons – it must also make good business sense.
- **Selling the company.** When a transition within the family is not achievable, a sale (in whole or in part) may be a better idea than trying to force the succession issue. The decision to sell, however, is likely to be traumatic, and professional advice should be sought to manage the process and deal with the tax and other consequences.

"Family businesses are becoming more comfortable with the concept of private equity. It can help unblock a succession impasse; it can be used to fund a next generation purchase of shares from the senior generation; and it can help families that have a disproportionate percentage of their net worth tied up in a single asset – the family business."

Rob Myers, Director, Barclays Private Equity, London. Personal conversation.

Exhibit 11: Seven stages in successor development

1 Attitude preparation. Key attitudes towards the family business are formed during a child's first 25 years of life, involving preparation through education and outside work experience.

2 Entry. Serious discussions of succession only come on to the agenda after training, orientation and the development of relationships with non-family employees.

3 Business skills development. The potential successor should obtain the best job experience possible, including education about the business's history, culture, strategy and philosophy. If a successor is not the best candidate for leadership, it will usually become obvious during this stage.

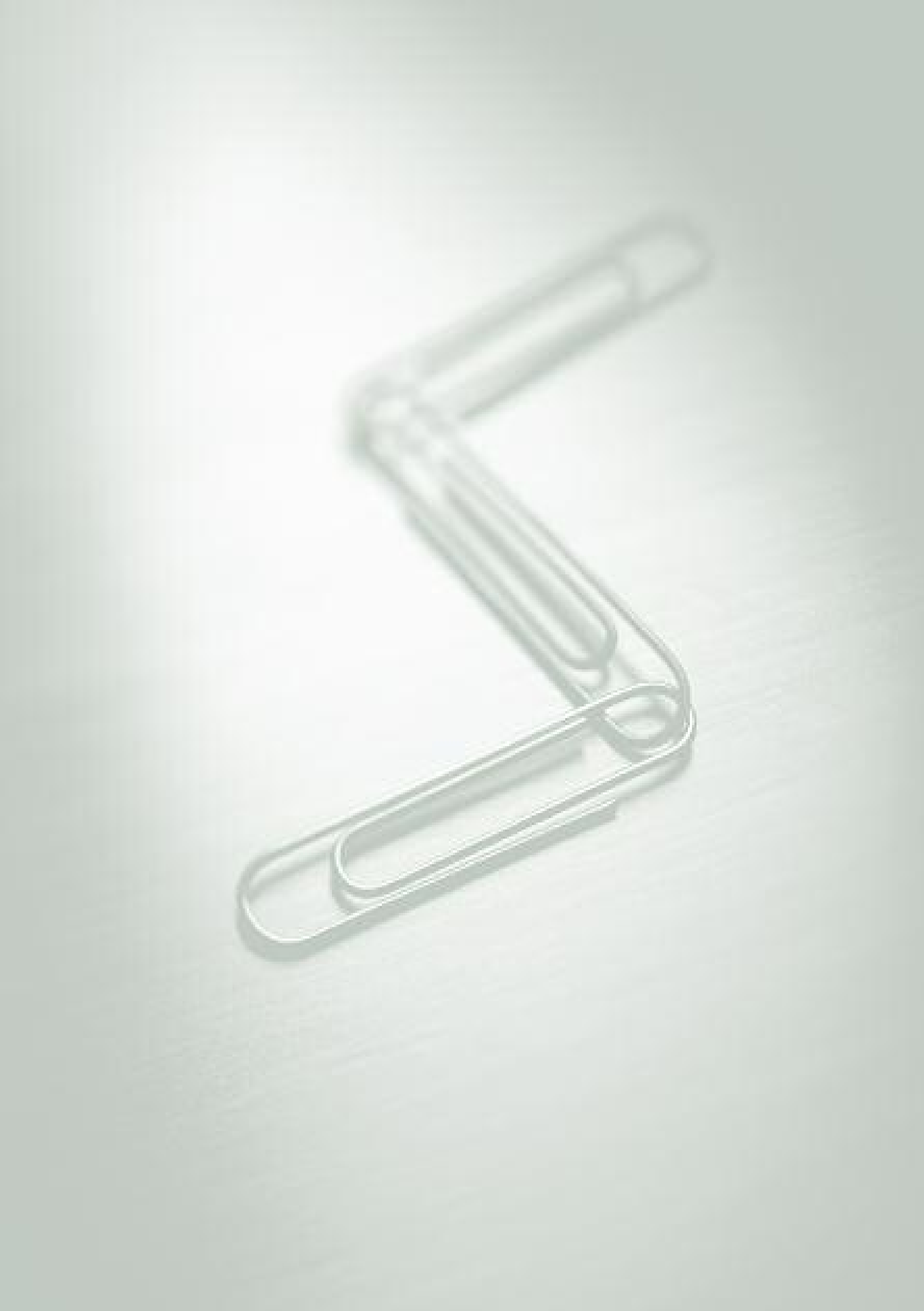
4 Leadership development. Between the ages of 30 and 40, the horizons broaden to potential responsibility for the entire business. Relevant skills development will include team-building and shared decision making.

5 Selection. If there are a number of candidates, selection should occur at this stage (or sooner). The choice might be made by the incumbent, the board or the family executive team, or by consensus.

6 Transition. This period is when significant authority and responsibility passes to the successor. This may be the time when the successor becomes involved in setting strategy and/or selecting their own management team.

7 The "next round". Succession in the family business is a cyclical process that should never be neglected for long. From age 45 onwards – i.e. not long after transition – new leaders should begin talking about developing successors from the next generation.

Source: Adapted from Craig E. Aronoff and John L. Ward (1992) *Preparing Successors for Leadership: Another Kind of Hero*, Marietta, GA: Family Enterprise Publishers, pp. 3–5.



Second generation businesses and beyond

For the most part in this guide we have focused on succession issues affecting first generation owner-managed businesses. There are sound reasons for this. Only a third of UK family businesses are passed on to the second generation. But many of the psychological and practical difficulties (and approaches to resolving them) that apply for first generation firms are equally applicable to succession between later generations. Nevertheless, in adopting this treatment of succession we have tended to reinforce a bias in favour of the owner-manager model, and it is necessary here to redress that balance.

Ownership complexity and succession

We noted earlier how adopting a “systems perspective” of family enterprises provides us with an aerial view of three sub-systems each operating at the same time – ownership, the family and the management of the firm – and it is the first that is the most critical variable in succession planning. Understanding the ownership structure in a family business is fundamental in understanding the real forces that are at work during succession transitions.

These changes take place as family business ownership itself evolves from the simple first generation controlling-owner structure, through the sibling partnership stage (where ownership has been divided among a group of sons and daughters of the original family) to the complexities of the third-generation-and-beyond family business, called a cousin consortium.

But ownership does not necessarily progress sequentially from one form to the next. For instance, not all owner-managed family firms are first generation businesses. There are examples of family businesses where the single-owner model is recycled, and the company is passed on to just one owner in the succeeding generation. This happens a lot in the farming sector where families do not want to split land holdings among siblings. Also, share buy-backs at family firms can lead to the re-establishment of either an owner-managed business or a sibling partnership, where one branch of the family buys out the others and takes control.

Sibling partnership styles

Second generation family firms run by the sibling offspring of the founder sometimes modify the single-leader model by taking one of two alternative forms – either “first among equals” partnerships or true partnerships. “First among equals" is where one sibling in the partnership has perhaps a marginal edge on the others, who are willing to accept the individual as the respected leader of the company and its figurehead. In contrast, in true partnerships two or more siblings operate as a real team of equals, sharing leadership and managing the business on the basis of consensus.

Both types of partnerships depend on there being some sort of shared vision and a strong sibling bond that fosters collaboration and helps create and maintain successful teamwork. If this bond is missing it is unlikely that a sibling partnership of either sort will work. The bias in favour of single leaders has sometimes worked against successful sibling partnerships, with family business advisers often pointing towards the need for a single leader with ultimate decision-making power.

By the time the third generation is in place, there is a well-established business, often with several dozen family members who have some sort of stake in it. Unlike siblings brought up in the same family, cousins may have little in common. Even more than with sibling partnerships therefore, there's a fundamental need for cousins to develop a shared vision about the future of the business that provides vitality plus a sense of common purpose and direction.

Not just "changing the guard"

A key point to understand is whether succession is from a single owner to sibling partnership, or from a sibling partnership to a cousin consortium, the transition is not simply a matter of changing the people – *it represents a fundamental change in the system.* In short, it introduces a different type of business structure with a different culture, different procedures and with the requirement for a new set of ground-rules.

Also, these changes in system and culture do not take place overnight. In Exhibit 4 we noted how in most successions there is a transitional period during which the business is effectively "between systems". Depending on the spread of ages within generations, these periods of overlap sometimes last for a decade or more.

But the really problematical issue is that what works under one ownership structure does not always work (and may indeed be a recipe for disaster) under another. For example, if third generation cousins look to what their parents did in achieving success at the sibling partnership stage, and try to emulate it in the cousin consortium phase, they usually fail. It is easy to overlook the huge challenge that this implies. In effect one is asking owners to forget what they learned through decades of observation and example, despite the fact that they have masses of data proving that what it was they learned worked very well.

This challenge in effect creates a dual need – first, to forget or "unlearn" what used to work, but no longer does and, secondly, to define and then master what used not to work in the old scenario, but now does in the new! Not surprisingly, it is generally a hard task for people involved in succession to understand and get to grips with these counter-intuitive ideas. So for example, around the mid-point in the succession transition from owner-manager to sibling partnership, there will typically be a group of siblings trying hard to become a team, but working under the owner-manager who not only finds it hard to understand teamwork, but may well see it as a sign of weakness ("It's slower, it's cumbersome, it confuses the employees" and so on.)

Cousin consortium challenges

When a sibling partnership is passing to cousins, the siblings are looking at the incoming cousins and trying to work out how, as family diversity increases, unity of purpose will be maintained. But siblings cannot assume that what worked for them in growing the business will also work for the cousins. Neither can they assume that the cousins are going to behave like they have done. Siblings generally overlook how little the cousins will have in common and that they'll operate within a different system that has different values, rules and methods.

At sibling-to-cousin transitions (see Exhibit 12), siblings also tend to overlook the added multi-family complexity with which cousins are going to have to cope, and fail to appreciate the extra structure, formality and governance systems that the cousins will need in order to help them manage this extra complexity.

Exhibit 12: Transitions from siblings to cousins – how things change

IN THE FAMILY

- Siblings have the same parents and have grown up in the same household: cousins have different parents and grew up in different homes.
- While siblings share life experiences, cousins generally do not.
- Sibling rivalry is less of an issue by the cousin stage.
- Siblings look out for one another, but cousins feel less responsibility – they have fewer bonds.
- As adults, siblings often live closer to one another than do cousins.

IN THE BUSINESS

- By the cousin stage a smaller percentage of family members are employed in the business.
- In sibling partnerships, family members generally hold most of the top

leadership positions, but with cousin companies more non-family executives rise to the key posts.

- Cousin company boards have more independent directors and less family members.
- Siblings may receive equal pay and be treated equally in other ways, whereas cousins' remuneration is usually based more on market rates and merit.
- Shareholdings in the family business are likely to be equally distributed among siblings, but cousins generally inherit different-sized ownership stakes.

Source: Adapted from Craig E. Aronoff and John L. Ward (2007) *From Siblings to Cousins: Prospering in the Third Generation and Beyond*, Marietta, GA: Family Enterprise Publishers, p.6.

The critical importance of "structure"

The best way to combat the natural tendency of family businesses to become more complex as time passes, and to prevent family tensions interfering with the efficient functioning of the business, is to introduce "structure" in the form of rules, policies and procedures that help the family develop a cohesive approach to the business.

Mechanisms are needed to manage the diversity of interests and demands, and to build consensus among an often disparate group of owners and family members. These include:

- A strengthened **board of directors,** including some talented outsiders.
- A **family council** through which the family coordinates its values and defines its relationship with the business.
- A **family charter** that sets out policies on key issues such as family entry to and exit from the business, and buying out shareholders who want to exit.

Such mechanisms become especially important during succession transitions between one family business form and another. In a nutshell, these formal procedures help "de-emotionalise" the situation and allow people more opportunities to communicate in a structured manner, progress rationally through the problems and find ways of working with each other.

But the different ingredients that make for success in the three types of family business – like the heroic entrepreneur in owner-managed businesses, the shared vision in sibling partnerships and effective governance systems in cousin companies – serve to emphasise the point that feasibility is a critical question to bear in mind throughout the succession process. In any succession, families need to question whether the conditions surrounding the business are right to allow it to make a successful transition to the form to which it aspires in the next generation. When there is an element of uncertainty and doubt it is helpful to evaluate the strengths, weaknesses, opportunities and threats (SWOT) of the family business, and understand the business needs and the capabilities of the family. If the risks of owning the business outweigh the rewards, family members need to face up to the fact that what they are planning is neither feasible nor sensible, at which point other solutions should be evaluated, including an exit.

Finally, a particularly valuable aspect of the owner-manager, sibling partnership and cousin consortium model for analysing succession is that it helps to focus attention on the issue of cross-generational teamwork (see page 31). Both generations on either side of the particular succession transition can work on the task at hand, and having such a pretext for collaboration is precisely the sort of inter-generational rallying point that often helps families to negotiate transitions successfully.

Implementing succession

The sixth and final stage in our "systems perspective" model of the transition process (see page 20) is "Commitment to the new structure". It is at this stage that evaluating and testing different options for new forms of ownership, management and leadership come to an end, and the family business formally declares itself ready to operate differently – to facilitate and implement the agreed changes in its structure.

For leaders, key tasks centre on designing an announcement strategy; legitimising the choice to the people who need to make it happen; creating a timeframe for the transition; creating an incentive structure for the change; and then concentrating on the "letting-go" issues that will affect the senior generation.

Communicate the decision

In practice this means that the finalised succession plan (or at least its principal conclusions) should be formally announced to the family, the employees and to outsiders who have an interest in the continuity and success of the business (like bankers, customers and suppliers). Tangible evidence of a serious approach to the problems of succession will impress and reassure them and, at the same time, give everyone the opportunity to prepare for a smooth transition.

Some family businesses decide to say very little about the succession decision for fear of offending someone, but this is usually a mistake. It sends out a message that no one assigns much importance to the transition, and it can undermine the successor.

However, the decision on the chosen successor should be communicated with sensitivity, bearing in mind some family members may feel they have "lost out" to the person chosen. On the other hand, it should leave no doubt that the successor is respected, capable and in control.

Exhibit 13: Key points on implementing the succession plan

- **Decide how to announce the succession plan**
- **Include action stages to back up each ingredient of the plan**
- **Set target dates**
- **Include a timetable for follow-up and review of plan implementation**
- **Keep everyone informed**
- **Review the plan periodically**

With options selected and choices made, leadership of the business should be transferred in a step-by-step process that allows both seniors and the next generation to assume their new roles smoothly.

Remember everyone is affected

Many people think of succession planning only in terms of business leadership, but succession initiates a domino effect that necessitates all kinds of changes affecting the entire organisation and the whole family. For example, changes in the corporate culture, new management systems and styles, and new career paths for key executives mean that implementing organisational succession is likely to be a demanding and stressful process. It will need careful managing, and a number of critical issues must be borne in mind:[17]

- **A new management team** must be developed that supports the successor. This will be a sensitive area, especially for the departing leader and for non-family executives, but ultimately successors deserve their own management team.
- **New career paths** need to be charted for other important family and non-family employees.
- **The board of directors** will probably need to be reconstituted to reflect the revised strategic needs of the business and its new leadership. This topic should ideally have been discussed in the succession plan, and with the individuals involved, so as to avoid misunderstandings or hard feelings.
- **Successor performance review systems** must be put in place, both to provide the new leader with feedback and to reassure shareholders that he or she will be held accountable.
- **Shareholder relations** will become more important as ownership expands to more family members in succeeding generations. The successor should take responsibility for ensuring that shareholder communication and education programmes are upgraded.

The next generation's perspective

Privileges balanced by responsibilities

Members of the next generation in a family business have a unique opportunity to put together a challenging and enriching career for themselves, and from the start the advantages of their situation are significant. They can build on the foundation laid by previous generations, while working in a rewarding atmosphere that encourages a "sense of belonging" and extra commitment. From a personal standpoint, family members also enjoy a special status both inside and outside the firm, and it is a distinct possibility that one day they may become owners of the business.

Yet a potential successor's path is not easy. If they have joined for the wrong reasons (searching for a safe haven, for example), or because they have not thought through the emotional complexities of family business life and the commitment they must be prepared to make, then it may be a decision they will live to regret. Even having joined for the right reasons, they may face big challenges developing self-reliance, their own identity, and demonstrating readiness to lead and a willingness to carve out their own path to the top. Successors need to earn credibility and authority, either through innovation or step-by-step accomplishments.

Going "the extra mile"

Before joining the family business, potential successors should first obtain outside career experience. This will help them to develop an objective view of their own talents and abilities, and will boost their credibility. They should also discuss the prospect, as well as other career possibilities, with senior members of the family and directors.

"It is clear that where successors have spent time outside of the family business they have often brought a fresh insight and breadth of vision to the family firm. As individuals they felt they have 'proven themselves' and often they bring back a skill not already present within the family talent pool".

Sarah Courtney, Private Banker, Barclays Wealth. Personal conversation.

Next generation members who do join should make sure it's because they are committed, not because it is expected of them, or an easy option. Sometimes the senior generation are guilty of counting on their offspring as automatic successors. Where the next generation have grown up believing that they will succeed as a matter of right, rather than having to demonstrate tangibly their level of commitment, this should trigger warning signals.

Exhibit 14: Joining the business – key factors to consider

- What are the reasons behind my decision?
- Does the business offer the sort of career I want?
- Will it be possible for me to live up to the senior generation's expectations?
- Will I be able to establish my own independence and freedom to act, or will I always be operating in the shadow of the previous generation?
- How will I get along with the senior generation when we have to work closely together every day?
- Can I establish working relationships with my siblings or cousins, or will there be too much arguing and conflict?
- Will the employees respect me?

The next generation should also beware of sibling rivalry. If there are brothers or sisters working in the business, some rivalry is normal, but work may be needed to prevent these feelings becoming a destructive force. This requires a determination to manage sibling rivalry rather than being managed by it. A good idea is to agree on a code of behaviour that recognises that the welfare of the business is paramount, and that establishes procedures for resolving differences.

Preparing for leadership

Potential successors should ensure they have a long-term training programme encompassing all major aspects of the business. At the same time, however, it is important for training to be worthwhile and valuable. Time spent on manual and repetitive jobs just for the sake of doing everything is usually not very productive. Under a structured development plan, training should represent a meaningful learning experience in the context of the successor's career objectives.

Successors must also demonstrate their willingness to work hard and provide an extra dimension of commitment to establish their own identity and gain the respect of employees. Because everyone working in, and doing business with the firm will know they are "family", they will have to make special efforts to show they're prepared to succeed or fail on their own merits. As far as possible, privileges and special treatment must be avoided as they only serve to remind everyone of the successor's special position. On joining, the junior generation's credibility with non-family employees will probably be minimal, and acceptance as a leader will have to be earned through merit and dedication.

"Tread carefully" is another useful guideline. There is bound to be resistance to the bright newcomer who wants to change everything around. So even if operational procedures and systems do need professionalising, potential successors should avoid making the issue into a crusade. Instead, they should be patient, take a step-by-step approach and build their credibility.

> ***"Emotional intelligence is the ability to understand not just your own emotions but also the emotions of people around you, and it's a very important skill in family businesses. Potential successors are under scrutiny from the whole range of stakeholders in the business, and being able to feel what those people are feeling, or at least imagine what they're feeling, is a huge advantage. Having this ability while still trusting one's own judgement is a valuable talent, and well worth cultivating."***
>
> **Åsa Björnberg,** London Business School, and holder of the Institute for Family Business Fellowship. Personal conversation.

The next generation's role in the succession process centres on being thoroughly prepared, and doing everything possible to ensure the transition takes place smoothly. The ideal result will be that the next generation gradually takes on more and more responsibility, so that assuming leadership, when the time comes, represents a natural progression that does not surprise anyone. Juniors should talk to the senior generation concerning fears the latter may have about loss of authority, status and self-esteem. This appreciation of their perspective should help to reduce the potential for conflict and ease some of the main emotional problems of the succession process.

A final thought on the next generation's role in the succession process is that they have a golden opportunity to renew the strategic vision and values that underlie the family business. Once in position, an early task should be to set about revitalising the history, culture and vision into a shared mission that can improve the business's competitive advantage and give the family a fresh sense of cohesion and purpose.

Conclusions

Successfully transferring family businesses to the next generation raises complex and emotionally charged problems. Planning for the transition cannot start too early, and the whole process needs to be carefully managed. But many entrepreneurs are reluctant to face up to the thought of giving up control, and succession is one of the main causes of divisions and tensions that can damage family life and undermine business performance.

The first step is to understand the complexity involved in drawing up a succession plan. People often confuse it with a series of technical transactions, like selling shares or tax matters. But, in reality, succession planning is about preparing successors for leadership, and this means that the process is surrounded by tough, emotionally sensitive issues, all of which need to be addressed and resolved before technical "solutions" can be considered.

Having a framework for conceptualising the process of generational transitions helps avoid the danger of being overwhelmed by events. We have advocated adopting "a systems perspective", which can be used in a practical way to help understand the dynamics unique to every case. Having a "mental model" of their family business system will help family business owners cope with the idea of how the three system components – family, business and ownership structures – inevitably change over time.

Equipped with this systems perspective, both senior and junior generations can start work on building the methodical approach to succession planning that is needed in order to overcome all the forces that favour doing nothing. Key conclusions are:

- Creating a strong succession plan is a long-term process. Start planning early, involve the family and colleagues, and take advantage of outside help.
- Let the next generation know they will be welcomed into the business if this is their choice and provided they have the necessary capabilities. But, equally, make clear they will be supported if they choose other careers.
- If the next generation do want to join, encourage them to start their careers working in other organisations. Then provide them with a training programme that is relevant, worthwhile and that allows them to achieve their highest level of potential.
- Start drawing up a *written* succession plan as early as possible. Involve a neutral outsider who knows about family businesses and who can facilitate emotional discussions.

- Succession should involve a well-planned partnership with the next generation. Inter-generational collaboration is built on adult-to-adult – not parent-to-child or child-to-parent – communication.
- The next generation has a valuable role to play in the seniors' retirement process. If relations with seniors have centred mainly around the business, cultivating more personal ties is a good starting point. More effort should be made to understand what retirement means for them (encourage discussion of their hopes and fears) and acknowledge the importance of their achievements.
- Once the choice of successor is made, leadership and control of the business should be transferred in a step-by-step process that allows for smooth adoption of new roles and responsibilities by both generations.
- Seniors should establish a target date for their retirement. This should be far enough ahead so that successors and everyone else can plan and prepare.

It is a dangerous mistake to regard succession as simply a question of transferring a tried and tested way of running the business from one generation to the next. Rather it's a *system* change; a transition to a different type of business structure with a different culture, different procedures and different ground rules.

Notes, references and resources

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[4]Exhibit 1 is adapted from Ivan S. Lansberg (1988) *The Succession Conspiracy: Mapping Resistance to Succession Planning in First Generation Family Firms*, Yale School of Organization and Management, Working Paper A70.

[5]The diagram is adapted from R. Tagiuri and John A. Davis (1982) "Bivalent Attributes of the Family Firm", reprinted (1996) in the "Classics" section of *Family Business Review,* Volume IX, Number 2, Summer, 199–208.

[6]Exhibit 3 courtesy of Dr Barbara Murray.

[7]For more detail concerning the summary that follows, see Kelin E. Gersick, Ivan S. Lansberg, M. Desjardins and Barbara Dunn (1997) "Stages and Transitions: Managing Change in the Family Business", *Family Business Review,* Volume XII, Number 4, 287–297.

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[11]This section includes summaries of some of the main conclusions of Chapters 3 and 4 in the 2004 joint publication of the BDO Centre for Family Business and the Institute for Family Business (UK), *Succession Management in Family Companies.*

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[16]See, for example, Harry Levinson (1974) "Don't Choose Your Own Successor", *Harvard Business Review*, November–December, 53–62.

[17]This list is adapted from the excellent discussion of this topic in Craig E. Aronoff, Stephen McClure and John L. Ward (2003) *Family Business Succession: The Final Test of Greatness* (second edition), Marietta, GA: Family Enterprise Publishers, pp.53–55.

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