

Planning for Continuity in Family Business: Where, Oh Where, to Begin?

By: Amy Schuman

The Family Business Consulting Group

“We have wills and trusts in place, thanks to our attorney and accountant. But, it’s been quite a while since we signed those papers. I know we need to do more to get ready for the future, but I’m not sure what to do or where to start. Can you help us plan a path forward?”

Experienced CEOs are skilled in making investment decisions and building leadership teams, but they often find family ownership-related questions daunting. For example: How — and when — do we begin educating the next generation of owners? What’s the best way to build stronger family relationships and clearer communications? Should we involve spouses? How do we create “rules of the road” for family employment and set realistic financial expectations for future owners? What’s the best way to ensure that merit and qualifications guide business decisions? What should be the role of our parents in planning for the future that will not include them?

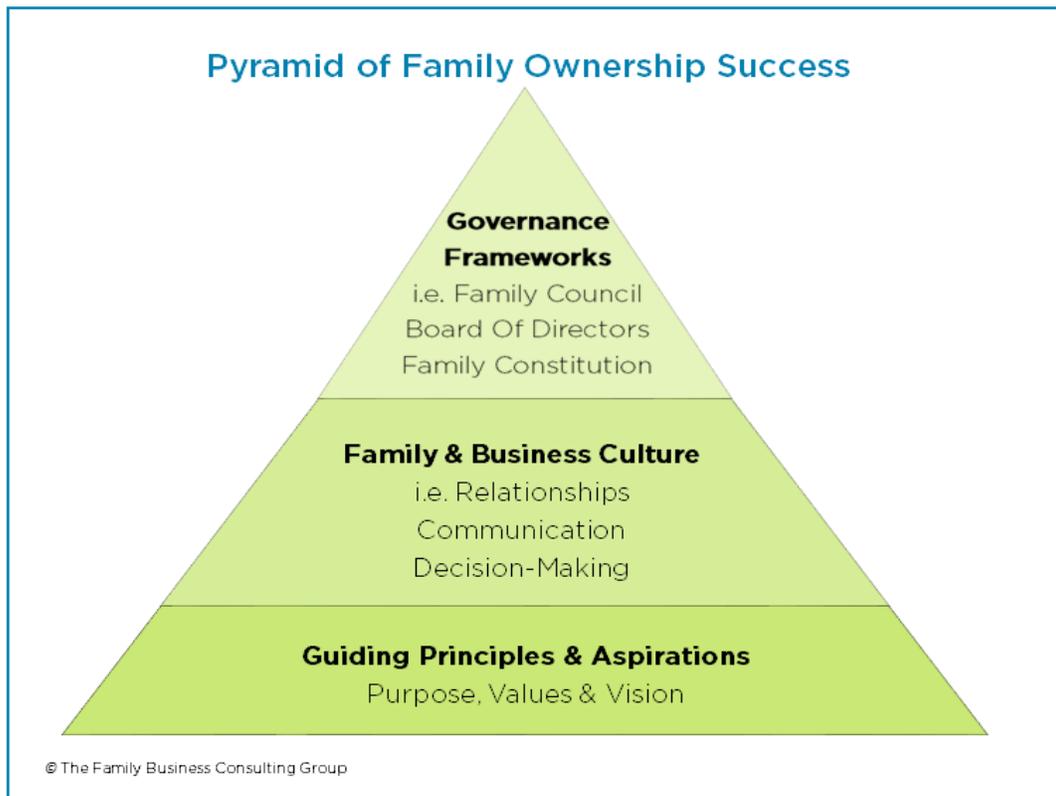
It is our job as family business consultants to help families identify their tough questions and then help them formulate answers that support their continued success. Although every family business is unique, proven governance practices exist for the family, the owners and the business that have tremendous value in helping them prosper across the generations.

For example, a family council is often the ideal way to provide education and participation for the wider family. A family constitution, with participation policies, can be the best way to clarify rules of the road for next generation employment. A board of directors with independent members is the optimal vehicle for creating objective, expert accountability for operations. Although these governance practices can make the difference between success and failure, they are often frightening and foreign for family members.

The Pyramid of Continuity

To help families feel more confident and safe as they implement these approaches, I’ve refined a very simple approach: The Pyramid of Family Ownership Success (see diagram). This pyramid draws from my work with successful family firms as well as family business research and collaboration with clients and colleagues.

The idea behind the Pyramid is that successful governance must be built upon a strong foundation. The base of the foundation is ownership clarity regarding Purpose/Values/Vision of both the enterprise and the family. The middle of the Pyramid is a healthy family and business culture. Governance practices finally rest at the top of the Pyramid. A strong foundation provides assurance that the governance practices are



meaningful and will be successful. A weak foundation will provoke predictable problems when implementing boards, family councils or other mechanisms for decision-making and accountability.

A Firm Foundation Fosters Success

Peabody's Petcare Products (an actual, but disguised, case) knew it needed more formal governance practices in the transition from the second to third generation of family ownership. However, they were hesitant. The hand-off from founders to siblings went smoothly without any formal policies or meetings. The business grew nicely under sibling leadership, providing generous financial benefits for the wider family. The Peabodys knew they had to do things differently to manage the increased size and complexity of the ownership group in the cousin stage. For example, they knew they needed written guidelines about family employment. They knew that a board with greater experience would be needed to keep up with the competition. They suspected there were other practices and approaches that would be required, but had no idea how to get started. The family also worried that discussing these subjects would

raise disagreements and conflicts. Although it seemed daunting and even dangerous to take a different approach, they knew something different was required.

When I met with the Peabody family leadership, I advised them not to start right away with implementing governance structures. Instead, I recommended beginning at the base of the Pyramid with Values and Vision:

- What is their purpose for continued family ownership?
- What did they want to create, together?
- What guiding values did they turn to when making difficult decisions?
- What was their shared vision for the future of their enterprise?

Although initially hesitant about engaging in such a “touchy feely” process, they soon saw the benefits and actually enjoyed exploring this together. Once the siblings had agreed upon their Purpose/Values/Vision, they held their first-ever all-family meeting to share and discuss with the entire family.

A quick review of some of the most admired family firms in the world shows that they credit their values and vision as key to their enduring success. The Vermeer family, when speaking about their continuity over three generations, point to the “Four P’s” (principles, people, products and profit) as a key source of their success. (See www.vermeer.org, for more about the Values and Vision that support their multi-generational success.) Other model family firms - including Enterprise Rent-A-Car, Wegman’s, SC Johnson and more — place their guiding Values and Vision in the center of their success.

Building a Strong Core of Family and Business Culture

Culture is often defined as: “How we do things around here.” Family business culture is a key part of family business superior performance (“The Competitive Advantage of Culture in a Family Business”, LeCouvie and Rhodes). In 2014, private companies were among 13 of the “Top 20 Best Places to Work in America” (*Fortune*).

Rather than speaking abstractly about culture, it’s best to work on relationships, communication and decision-making while working on real tasks and solving concrete problems. For example, deciding on a Purpose/Values/Vision statement provides a great opportunity to experience the family culture of communication and relationships.

Also, there are specific questions that can be explored to better understand your current — and desired — culture. For example:

- To what extent are relationships supportive, open, trusting?
- How are decisions made?
- Does the family base business decisions on merit rather than emotion and family status?
- How is conflict resolved?
- How does the family and business approach change and innovation?
- Is there calm and flexibility in the family as it goes about its business?
- Is time taken for joy, celebration, generosity and sharing?

Good Governance at the Peak

The Peabody family found this to be true. As they discussed and debated their Purpose/Values/Vision statement, they realized that they tended to hurry through conversations in a way that shut down and excluded some of the quieter family members. They also had a habit of interrupting each other and speaking over each other when disagreements surfaced. This resulted in decisions that were not fully supported by the whole family, leading to problems later on.

As facilitator, I was able to slow down the process and allow everyone to participate. Upon reflection, the family liked this approach. They liked hearing from everyone. They implemented several approaches to make it easier for the entire group to participate in discussions - such as deliberately going around and hearing from everyone more formally.

It can take a full year to build the Pyramid’s base. In the process, the middle is strengthened. Spending time together, in a relaxed, facilitated environment, allows families to build stronger relationships and more effective communications. Then, the family can proceed to implementation of governance structures with confidence.

The Peabody family took the following period to create a family council and the council facilitated the process of creating a family constitution. The constitution laid out policies and guidelines for family employment, joint investing and managing conflicts of interest.

Also during this time, the Peabodys made a gradual transition from an informal, family-dominated board of directors to an advisory board with several outside directors. The planning process had demonstrated to everyone the importance of making business-related decisions from a place of financial understanding and professional competence. Eventually, they evolved to a fiduciary board with three non-family directors. There were bumps in the road regarding director selection, and there were some significant tensions in the evolving board/management relationship. However, when faced with difficulties or tough decisions, the family consulted their underlying Purpose/Values/Vision statement, and each time they were able to find

a path forward that all could support. If they had not invested in the base of their Pyramid, it is unlikely that the disagreements would have been resolved as effectively.

Continuity Planning Begins and Ends Here

Looking back at several years of meeting, planning and implementation, the Peabodys realized that their measured, careful approach to implementing governance structures had paid off handsomely.

If you've been meaning to implement formal succession planning and governance, but haven't yet gotten around to it, you are not alone. A recent study of Western Michigan family firms paints a surprising picture. Although 80 percent of respondents intend to hand the business down within the family, less than 20 percent have a formal, written succession plan. (Study conducted by Grand Valley State University and Western Michigan University.)

I believe that many family businesses hesitate to implement these practices because they worry about creating more problems than solutions. They rightfully recognize that they lack the foundation for success with these practices. Whether you are just starting formal continuity planning, or have been planning and meeting for a period of time already, The Pyramid of Family Ownership Success can offer reassurance and guidance to your efforts. Consult the Pyramid and determine which part of the continuity planning process needs attention. By starting with a strong base, you will be able to enjoy and appreciate the benefits of governance policies and practices with minimal disruption.

Thanks to my colleagues Drew Mendoza, Kristi Daeda and Paul Koprowski and to my in-house consultant, Dr. Larry Stoler, for helpful feedback and input on this article.



Amy Schuman is a Principal Consultant with The Family Business Consulting Group, Inc., and can be reached at schuman@thefbcg.com or 847.329.9880.

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