The Family Business Advisor

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Pre-Mortem Beats Post-Mortem

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In my younger days as a family business consultant, I confidently gave simple, direct advice on one key aspect of generational transition. "Set your retirement date, announce it publicly, and stick to it." I was somewhat flexible on the question of retirement age. After making my speech about passing the baton when both runners are in good shape, I'd consider anywhere from about 55 to 75 to be an acceptable retirement age.

That is perfectly fine advice — as far as it goes. But it doesn't go very far with owner/operators who have no intention of hanging it up. When I explained to the senior who identified too strongly with his business, that he should develop other interests, and he should lead a more balanced life, the response often was "Yeah right. I don't need a consultant for this. I've heard all this from my wife."

Our research has revealed that over 10% of sitting family business CEOs plan "to be carried out with their boots on," intending never to retire.

Another 23% intend to "stay involved," or "semi-retire" — whatever that means. (When a father told me "I'm retired more or less," his son grimaced. I asked why the reaction and the younger man explained: "The problem is that I never know when he's retired more or when he's retired less.")

So over the years, the advice has changed. If we can't get a retirement age — or even better establish a retirement age policy to govern the entire business – we seek to clarify the senior's role, responsibilities and authority of course, that's no small task in itself.

Recently, the owner/operator/father approaching his mid-70s of an outstanding business, once again made it clear to all that he intended to keep doing what he was doing as long as he was effective and having fun. With both his children in the business having matured nicely, working well together, and successfully operating major profit centers, none questioned the next generation's ability or commitment. The problem was that when Dad's exit finally occurred — voluntarily or involuntarily — a massive hole would be left in crucial aspects of the most profitable and critical aspects of the business. Everyone — the next generation, key non-family executives and Dad (there was no functioning board, another idea that didn't fit with Dad's philosophy) — recognized the problem. But what to do?

The answer, accepted by all parties, was to conduct a "pre-mortem" exercise (also referred to as the "gone fishing" exercise.) The exercise included the two next generation owners and four key non-family executives representing finance, operations, sales/marketing and human resources. Dad would not be part of the deliberations, though he could serve as a resource and would review the group's output. The committee had several tasks.

First, the group would develop a detailed action plan. Specifically, what were all the decisions to be made and things to be done if Dad were to suddenly exit? Specific individuals were identified with specific responsibilities. The potential impact of their father's death on the next generation was discussed so that realistic expectations would be placed on them given their ability to operate during mourning. Specific areas requiring further preparation, especially those requiring development of stronger relationships, were identified and plans responding to any needs were laid out.

Next, the group focused on the organization's structure post-Dad. Non-family executives pressed the family executives to be clear about the roles they would anticipate playing when their father was no longer on the scene. After spending time together working through that issue, the siblings reported back to the committee. Then the committee as a whole considered what the future organization should be, and whether human resources were available in-house to fill anticipated positions. One recommendation of the committee was that two new executives be hired in the father's area of the business so that they'd be trained and ready when the time came.

That led to a discussion of management philosophy. Dad was a very hands-on manager. The next generation was less so, hiring outstanding people not just as high level staff, but as actual executives with bottom-line authority and responsibility. How that change in philosophy would be implemented was a topic of considerable discussion. Changes in relationships, accountability and compensation that would bring about a change in management culture were discussed.

Finally, post-Dad strategy was discussed. The next generation clarified again that they intended to continue to own and grow the business. Expectations for top-and-bottom-line growth were clarified, as were circumstances under which acquisitions might be considered. And lastly, the group generated a list of key questions, issues and challenges that would serve as a continuing agenda for the group. The results:

- Next generation leadership was reinforced and more firmly established than ever before. How they'd be working with the executive team was clarified. And since the four key executives consisted of some hired by Dad and some by the next generation, they had a greater sense of working as one team.
- The non-family key executives felt valued, empowered and more secure. They gained clear understanding of future leadership, structure and strategy.
- The father's feelings about the exercise and its outcomes were mixed. Thinking about his exit and demise were still unpleasant, but others dealing effectively with those realities gave him confidence and comfort. Indeed, having reviewed the task force report, he decided not to wait until he was gone to begin implementing recommended actions.

We still believe that a succession process governed by an active board with experienced outsiders and guided retirement policies is the best practice. We also respect the fact that family businesses' are what their owners want them to be. Finally, we recognize that there are many possible paths to success. The keys are having common goals, developing thorough plans, and providing effective leadership for excellent executive teamwork.

After all, a "Pre-Mortem" in anticipation of changes required by generational transition is a lot better than performing a "post-mortem" on a business that failed to survive.

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