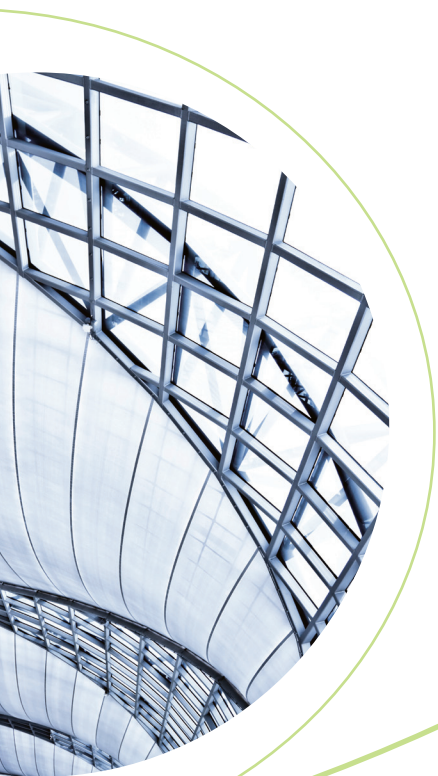


Don't think of it as 'Succession Planning...'

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Although “succession planning” is the term many use to describe the strategies and processes to pass leadership and ownership from one generation of owners to the next, we find it useful to define the process in terms of continuity. Succession connotes an event, something with a defined beginning and end. Continuity, on the other hand, suggests an ongoing process.

Why Continuity?

This distinction is important because succession planning is really a lifelong process, one that merits the ongoing attention of multiple business stakeholders and one that should always be on the owning family’s radar. It is critical to recognize that the process is never really complete. Ensuring continuity requires careful thought and planning, a great deal of discussion which includes family members as well as non-family management and the board of directors, and an ongoing focus on what the family wants for the future of the business and for themselves.

Continuity planning requires proactive effort. By the time a son or daughter is in a leadership role, they likely have grown children who, in turn, are thinking about their future in the business. Continuity planning requires consistent attention so that progress is smooth and systematic. That makes continuity planning a mindset, a part of the family and business culture and an ongoing effort with essentially no conclusion. The focus is not solely on passing the business from one generation to the next, but establishing a clear rationale and purpose for continuity of the business, one that supports the family’s mission, values, and goals.

The Challenges of Continuity Planning

As important as a focus on continuity planning is, many families find it more complex and multi-faceted than meets the eye. This is so for a number of reasons:

- Each generation of business leaders puts its own unique stamp (and challenges) on progress;
- Family members generally feel a strong emotional attachment to the business; and,
- The strategic challenges associated with a growing business require professional management bench strength that might be lacking in a current structure.

The evolution of the business also complicates continuity. The first generation of ownership works extremely hard and typically reinvests their earnings in the business, although they may begin to accumulate wealth. The second generation builds on that wealth and, in many cases, grows the business exponentially. The tipping point often comes with the third generation. This generation of cousins often enjoys financial means that were unavailable to the previous two generations, providing access to educational opportunities and, quite possibly, career choices other than the family business. Cousins and in-laws may now play a prominent role in the business. Having been raised in different households, these family members may develop a different perspective on the business than others who grew up together. Sometimes the blend of perspectives meshes beautifully. Often, the opposite is true. Certainly growth in the ownership group adds complexity to the process of gaining alignment.

The family’s psychological connection to the business is another factor. We typically find that emotionality around the business becomes somewhat diluted as the business transitions from one generation to the next, which can lead to inter-generational tensions. Not only may third-generation members pursue other professional options, but those who are interested in joining the business can become discouraged after listening to older family members complain about business and family challenges. Yet, many family members feel a strong emotional attachment to

the family's heritage, and wish to perpetuate an important legacy.

In addition, the business itself plays a role in the complexity. Typically, the business will become larger and more challenging to manage as time passes. Informal management practices must be replaced with more sophisticated processes and structure. Senior leaders must be willing to delegate authority, often to people who are not members of the ownership group. And, higher levels of skill and experience are required. Continuity planning must take into account the needs of the business in this regard, and consider the impact such material changes might have on the family, and shareholder needs and expectations.

These factors underscore the importance of comprehensive planning. It is important to recognize that continuity is intricately interwoven with the fabric of the business as well as the family. It is also interwoven with the issues of ownership and leadership, as well as family and business governance structures that support sound decision-making.

A Shift in Thinking...

As long-time consultants with the Family Business Consulting Group, we work with business-owning families who struggle with the challenges inherent in effective continuity planning. One interesting observation that has emerged from our experience is the number of family-owned companies that, in effect, take continuity as a given. Many assume and expect that all family members hope that the business will last for generations to come. However, from our experience, we also know that you cannot simply assume there is a true commitment to future generations without working to develop this commitment and engagement.

Even though continuity planning may at times lead to difficult conversations (e.g., "should a better qualified, but non-family, executive be groomed as next CEO?"), avoiding these important discussions will always put your business continuity at risk. Successful families

work together to define a vision of their desired future and build the plans, systems and processes required to make that vision a reality.

Keeping Continuity as a Focus

The family's continuity planning goals should influence almost every action and decision. For instance, when making a new management hire, it's helpful to consider how that individual might be included in the business' plan for continuity. Proactive business leaders will make key decisions — new hires, diversification initiatives and geographic expansion, for example — with business continuity as a backdrop for those choices. They will ask themselves whether key strategic moves will be supported by the necessary infrastructure to steward the company through the next generation. Similarly, owners will make decisions in light of their desire for continuity, including their expectations for liquidity, and the rules and process for passing stock to succeeding generations.

Here are a few ways to ensure that continuity planning gets appropriate focus in your family:

- Put this topic on the annual board calendar;
- Regularly engage all owners in discussions about the future vision for the business and family and ensure you track progress on these shared goals at regular family meetings;
- Build a culture of capability and continuity by investing in education in your business and family so that all your stakeholders have the skills and knowledge they need to continue to add value as the business, family and ownership groups continue to grow in size and complexity.

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