The Family Business Advisor

THE FAMILY BUSINESS CONSULTING GROUP

Leveraging Challenges to Drive Continuity Planning Opportunities

By: Stephen L. McClure, Ph.D. and Richa Singh, The Family Business Consulting Group

Succession planning and continuity planning are often used interchangeably when it comes to passing the torch in a family business. While succession planning implies an event like a leadership transition, we recommend thinking in terms of ongoing continuity planning. This approach is proactive, orderly, inclusive and transparent that starts early and considers much more than just leadership succession.

Of course, a planned path to continuity is much easier said than done. In our work, we recognize that unexpected challenges can serve as new opportunities for families to advance their vision for the future.

For instance, a successful family firm will not easily be inspired to plan changes when it has a capable, trusted business leader and strong, stable, unified family that sees themselves as stewards with enough fairness and wealth. However, if that same business family is presented with a lucrative offer to sell, they may be jolted into asking for the first time, "Do we want to continue?" Followed by: "Why continue? What's in it for my family, other stakeholders and me?"

Had they not received an offer to sell, what might have led them to consider continuity?

Identifying and Leveraging Drivers

Every family is unique in their own nuanced way but there are patterns of circumstances that lead families to begin the planning process and successfully follow through. As consultants, once we understand the family, we can identify the pattern and discover what moves them, what hinders the progress, and so on. We can then help the family find and leverage the drivers or tipping points that lead to serious action and commitment to continuity planning.

What are the drivers? The most common one revolves around the obvious need to replace the leader of the business. The leadership succession driver, like the offer to sell, can lead a business family to be planful about all the factors important to generational transition and continuity. This article explores drivers that occur less frequently, but are common enough to fit into patterns.

Below are four cases illustrating drivers that pave the way for planning and implementing all the necessary continuity planning features.

Driver One: Phantom of the Past Trauma

The third generation (G3) heirs to McCloud Steel Works stood at crossroads. All 15 of them had different aspirations, plans and goals in life — some in the business. They knew that business ownership would ensure a comfortable and secure life for them, but all were keenly aware of the persisting business-related conflicts and estrangements among their seven G2 parents. No one wanted to be a part of the misery they witnessed throughout their childhood.

Some of the older cousins who worked in the business were acutely conscious of the potential to repeat G2's experience in G3. The eldest G3, Adam, reached out to each cousin with an invitation to a meet at their ancestral home in St. Louis not far from McCloud's first factory. The meeting seemed like a futile exercise to some, but they all showed up and gathered in the large living room — hesitating and measuring their every word.

The message was simple: "Maybe we can't mend what happened in the past, but we can surely agree on our future together. Could we avoid what plagued our parents, overcome the residual family damage, and possibly give our own children a future choice?" This question caused a stir, grabbed everyone's attention and excited discussion replaced their previous uncertainty. The meeting ended with a commitment to learn what it would take to succeed together.

Driver Two: What's the Financial Deal?

Miles' grandfather built a successful construction business that was overshadowed by the success of his four children who built it into a large regional general contractor. The business provided exceptional cash flows to the siblings and had greatly appreciated in value over the course of their careers. In fact, the siblings realized it had appreciated too much when their financial advisors explained the capital availability, costs, tax liability and bonding limitations that would take place if they passed their ownership on to their children.

They never questioned if the business would be owned by their kids; they assumed it. But now, they were confronted with how to afford doing so. Miles was alarmed to hear this news as he was positioned to ascend as leader when G2 released control. His dad, aunt and uncles held their cards close to the vest, but he had always assumed they had a plan to get fair value for their ownership and provide an opportunity for his generation to run and grow the business just like their father had done for them.

Fortunately for all, it was not too late. The G2 siblings proceeded to get the best advice possible on a viable financial transaction. But the real value was provided by Miles who worked with his siblings and cousins to answer all the questions associated with 3rd generation family business success.

Driver Three: We Have Ideas and a Voice

The six adult children of George and Susan Davis were all well-educated and possessed great skill sets. Luckily for George, they all wanted to be a part of the family business he founded. George ran the business as a one man show for 40 years with four of his children working in various roles, two of which were in management positions.

His daughter Alana repeatedly tried to get George to communicate how the business would be owned in her generation, who might be eligible to lead it, and what the timeline was for his own involvement. George focused on the business and was not open to answering his daughter's questions or hearing her ideas.

His son Joe was the head of operations for five years, and abruptly quit one afternoon: "I can't be micromanaged and second guessed any longer." His father's pleas to reconsider were rejected. Alana was not surprised. She gathered her siblings and they agreed that while their father was a generous, loving dad and a great entrepreneur, he was not a family business continuity planner.

They decided that a respectful, firm proposal was needed that went beyond relinquishing control. Further, it would be in writing with all six signatures. Alana would deliver it and inform their father that openness to listening to their proposal was a condition of Joe's return to work.

Driver Four: A Crises is a Stop and Start to Everything

Martha was 68 when she passed away in her sleep. At the time, she was an entrepreneurial legend, having built her family's highly successful business in her field of nuclear medicine. She had been preparing for a board meeting planned for the following morning. Josephine, board member and oldest of Martha's children, was the first to notice that something was wrong when Martha didn't show up to the meeting.

The board was quick on its feet to minimize the media frenzy and allow the family to process the tragedy in their own time. Located around the world, it took three days to assemble all her adult children and grandchildren. Josephine took the initiative to help the family understand the gravity of the situation and apprise them of the lack of continuity planning on behalf of Martha.

The family had never faced anything like this before; they matured overnight. Led by Josephine, they decided that it was best to appoint a non-family CEO with the understanding that the family would sort out the future of the business and their continuity as family owners within a year.

Other Trigger Patterns to Keep in Mind

In each of those cases, the families leveraged their unexpected circumstances to advance their continuity planning efforts. Of course, there are other unexpected events that can trigger families to consider their vision for the future including:

Family shareholders confronted with a strategic business challenge, leading them to ask themselves about the business' future viability, then about family business continuity.

A family member who proceeds to hire their own children without the involvement, consensus on qualifications, transparency or process to which other family owners feel entitled. This propels action around the owners' expectations and commitment.

An uprising among non-operating family shareholders that occurs when their relatives who operate the business seem to say, "Take your dividend, but don't interfere with how we manage the business for you." Once communicated that it will no longer be tolerated, they define the alternative.

Revisiting and recommitting to family business' vision and purpose can also prove to be the driver for bringing alignment around continuity. As the organization evolves, stakeholders need to ensure that the vision and purpose are relevant to present times and resonate with the current players.

The Right Question Could be the Answer

The sequence of questions in each case are, "What will happen to us if we proceed as is?" followed by "Why continuity?" then "What do we need to do to ensure continuity?" The answers will not be the same for each business family. Certainly, reserving time and attention to an orderly consideration of each question is desired.

Alternatively, teasing out a driver or taking advantage of one might be the leverage you need to strengthen and develop enough commitment to comprehensive continuity planning.

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Stephen McClure and Richa Singh are consultants with The Family Business Consulting Group.

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