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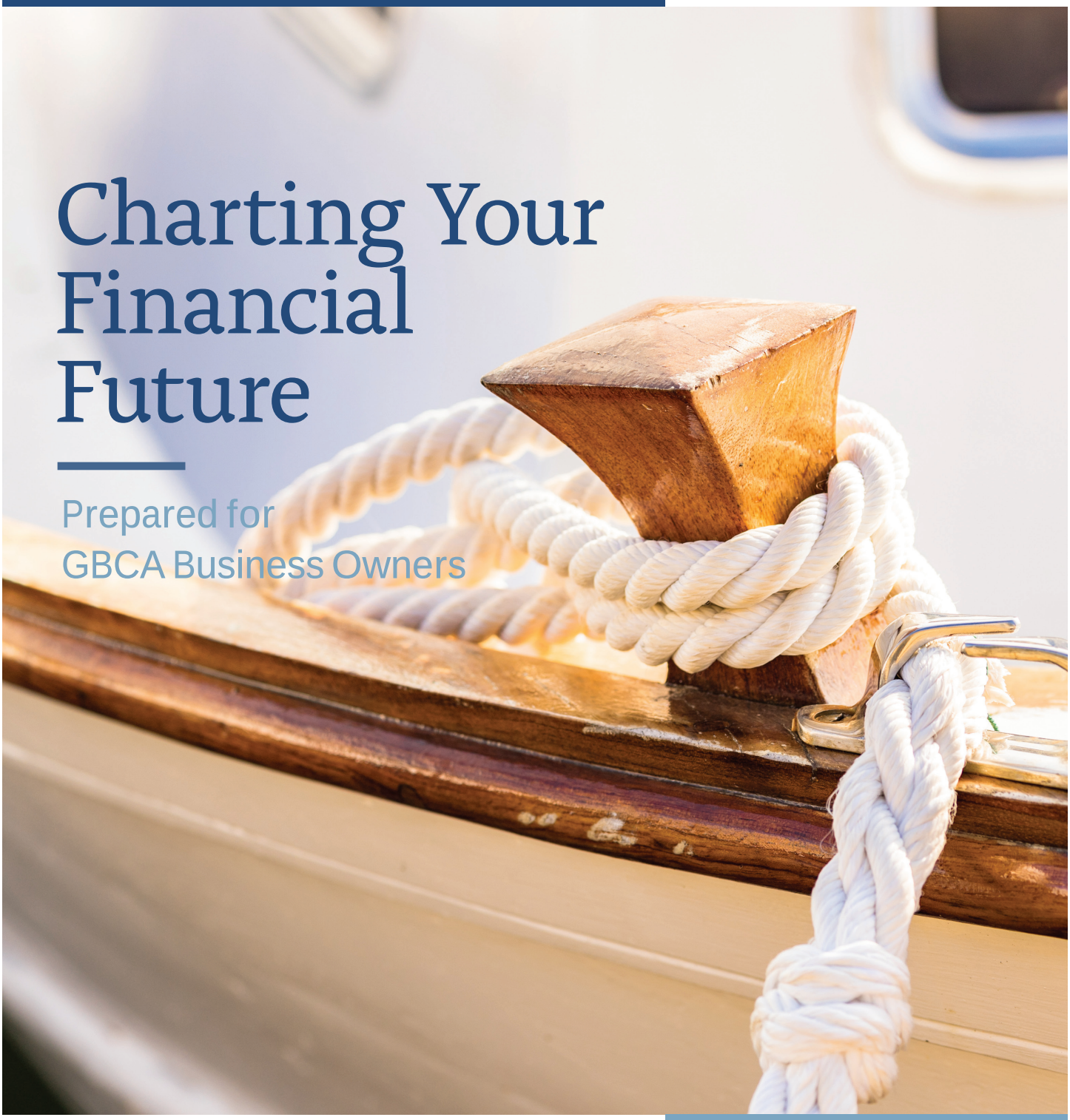

Business Planning

Managing succession in the family business.

By W. Gibb Dyer

As a doctoral student at MIT in the early 1980s, I was the teaching assistant to one of our faculty members, Dick Beckhard, a well-known consultant.

I was having lunch with Dick one day when he asked me the following question: "Gibb, what do you know about family businesses?" I admitted that I didn't know much about them, only that my grandfather ran a family owned grocery store in Portland, Oregon, for many years. Dick then told me that many of his clients owned family businesses and they were extremely difficult clients to work with, for he would try to help the family solve various business issues only to have family conflicts and dynamics undermine his consulting work.

He then proposed that he bring some of his clients into Boston for several days, we'd listen to their issues and problems, and then develop a research agenda based on their issues. I spent three days listening to the issues and problems of the leaders of five family businesses (one from Canada, two from the United States, and two from Venezuela), and I heard things that I never encountered in my MBA program, which focused primarily on issues facing large, public corporations.

While issues related to family conflicts, nepotism, the role of nonfamily managers in family firms, etc., were discussed by Dick's clients, the issue that most concerned them was succession in the family business—the transfer of ownership and management from one generation to the next. Since that time, I've done research on succession in family businesses and consulted with many family firms dealing with the succession problem. In this article, I summarize the keys to managing a successful transition from one generation to the next that I've learned over the past 35 years.

Succession planning process

Unfortunately, most leaders of family businesses manage succession poorly. One reason for this is that family leaders often view succession planning as "planning your own funeral." One founder of a large family business told me that for him, planning for succession felt like committing hara kiri (the Japanese form of suicide). Just thinking about succession was so painful that he hadn't started developing a plan. Not only do leaders of family firms find it difficult psychologically to plan for succession, but family members, nonfamily managers, board members, and others involved with the business often fail to encourage family business leaders to plan for succession. Raising the issue of succession planning can be seen by the family leader as a sign of disloyalty, since it amounts to asking the leader when he or she will retire.

Encouraging succession planning also may call into question the competence of the family leader. Given these "resistance factors," very few family firms have a well thought out succession plan. Furthermore, research has shown that family businesses that don't plan for succession do poorly financially after succession, as compared to those family firms who have a plan in place that is shared with the family and senior management.

A number of years ago I did a study of 40 family firms where I looked at the conditions in the business, in the family, and in the board of directors that were associated with a successful transition from one generation to the next. The following are the conditions of success that I found.

CONDITIONS IN THE BUSINESS:

1. The transition occurred when the business was healthy and not in

crisis. Less stress on the business made for a smoother transition.

2. The founder/leader gradually moved away from active management of the business. The family leader had a clear timetable for moving out of active management of the business to a more advisory role (typically as chair of the board of directors).
3. There was a well-developed training program for the successor and the successor was chosen based on skills and experience, not just birth order or position in the family. A development plan was put in place to help the successor gain needed skills and experience to lead the business.
4. There was a good relationship between the family leader and the successor. Each helped and supported the other.

CONDITIONS IN THE FAMILY:

1. The family shared a common view of what was fair. If family members felt that the process and outcomes related to succession planning were unfair, this led to significant conflicts that often undermined the succession process.
2. The family had a plan for what to do if the family leader suddenly died or became seriously ill. The family leader had a will in place to deal with any contingency that might arise.
3. The family was able to manage conflict successfully. In some cases, family counselors were hired by the family to help manage the conflicts they faced.
4. The family had common goals for the business and the family.
5. The family members trusted one another.

CONDITIONS IN THE BOARD OF DIRECTORS:

1. The business had an effective, functioning board of directors or advisors that helped manage the succession process. While most family firms don't have effective, formal boards of directors or advisory boards, those family businesses that had effective, functioning boards managed succession more effectively. Effective boards typically have two to three company outsiders on them who have solid business experience.
2. The board had the experience and expertise needed to help the family develop a detailed succession plan for transferring ownership and leadership to the next generation.
3. The board helped the family create a succession plan that left ownership to family members who were running the business and other assets to family members outside the business. Unhealthy conflicts typically arose when family members not connected with the management of the business had ownership, since they wanted financial returns from the business while family members working in the business wanted to put money back into the business to help it grow.

I have found that if the family leader and family members work to create these conditions in the business, the family, and the board, the likelihood for a successful transition increases dramatically.

So how does a family get the succession planning process started?

This is not an easy question to answer. I often find that family leaders only think about succession if they become seriously ill or have a near-death experience. One approach is to encourage family leaders to visit with other leaders of family firms who have done succession planning. Learning from the experience of other family leaders can motivate them to create their own succession plan. Hiring consultants who are expert in succession planning also can help. Most importantly, an effective board of directors or advisors can encourage the family leader to plan for succession and ensure that the plan is shared with the family and key nonfamily employees. In some cases, if the family business is having many problems—there are conflicts in the family, a successor is not available, or the business is not performing well—then selling the business may be the best option.

Succession planning is not easy. Thus, families need to be able to discuss this issue openly with the family leader and plans need to be put in place to make sure that the family and the business are successful after leadership is turned over to the next generation.

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