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## SEVEN DIMENSIONS OF SUCCESSION PLANNING IN FAMILY BUSINESS

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When leaders of family businesses think about succession planning, typically they are thinking of who will replace the President or CEO. Some go further to think about who will own the business when the current owners are gone: succession of ownership. But we have found that transitions from one generation to another require succession in seven areas, not just those two. Any program for succession must encompass the following considerations:

### 1 Succession of Leadership

Organizations need leadership and effective organizations have a plan for both a thoughtful, step-by-step transition to a new leader as well as an emergency plan for an unanticipated transition.

When we think about leadership for a family business, it may take a different form than other types of organizations. Leadership includes defining a vision for the future of the organization, developing a plan to get there and enrolling followers in collaborating to achieve the vision. In family businesses, the functions of leadership may be shared among owners and/or family members who run the business (these may or may not be the same people). Thus, transitions in leadership can be complex in that it may not be one leader passing the baton to a single successor.

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The establishment of a board to help plan the transition of leadership (particularly when it is a situation where leadership will be shared) is an important tool. Often, the Board of Directors and the CEO share the leadership function. The Board, representing owners, may help to create the vision for the future of the business. The CEO is typically responsible for leading the charge.

## **2 Succession of Management**

Leadership determines where the ship is going. Management assures that the proper steps are taken to get the ship to its destination. In small family businesses, the same person may serve as leader and manager of many functions. But oftentimes, he or she fails to step back and work on the business (i.e. leadership) vs. work in the business (i.e. management). Assuring that there is clarity of direction as well as the management to achieve it requires that succession planning be completed for all functions.

## **3 Succession of Authority**

One of the challenges of closely held business, particularly entrepreneurial ventures, is the inability of a leader to let go of control. The leader may recognize the need to have a successor; that he won't live forever. However, identifying a successor and letting him or her have the power and authority to take the business in new and different directions is another matter! We have found that there are two sides to letting go: first, the leader who is stepping down must have a compelling activity or project to move on to...He or she has to have roles or projects that take attention from the business he or she has led. Second, there must be a trusted successor whose knowledge, competence and values give the departing leader the confidence that his/her "baby" (the business) will be well cared for. Then—and only then—will authority be transferred. The presence of a trusted board of directors who will also be overseeing the successor helps as well.

## **4 Succession of Values**

As alluded to above, for leadership succession to occur, a successor must demonstrate that his or her

values are congruent with that of the predecessor. For example, if I have taken good care of my employees and they have been loyal to me and helped me build my business, I want to be sure that my successor places the same importance on caring for employees. I will not turn over the control of the business otherwise. If I believe that my success was due to micro-management of customer relationships, I will expect my successor to have that value as well.

One of the challenges we see between founding generation leaders and their successors (especially when the successor is an offspring) is a difference in value placed on “balance of life.” Entrepreneurs are known to be workaholics; their offspring often resent the absence of parent(s) because of the business. When they have their own families, they strive to have family time as well as business time. We often hear founders complain that their kids will ruin the business because they don’t work hard enough. Having a thorough dialogue about the values that will guide the business going forward and having the opportunity to observe some non-core values change and not destroy the business is essential to successful succession.

### **5** Succession of Knowledge

One reason leaders can’t let go is that they feel the successor doesn’t know enough. How can the successor be trusted to care for the business if he or she has not developed the knowledge and skills the founder had acquired while building the business? Frequently, the out-going leader is wonderful at building a business, but often not great at the “maintenance functions” such as planning and teaching. The next generation may have learned a lot over time, and have gotten formal education that helped, but the transition of knowledge and wisdom from elders may have been spotty.

It is critical that the succession planning process include an assessment of what competence and knowledge a leader will need to take the company where it is going rather than where it has been. Further, documenting what knowledge the elder feels is critical and developing a curriculum to assure the knowledge is transferred must occur. Finally, the younger generation must have clearly defined benchmarks that demonstrate the acquisition of required knowledge and skills to earn the trust of the prior generation of leadership.

### **6** Succession of Relationships

The transition also requires that key relationships be turned over to successors. Customers, suppliers, employees, owners and advisors must all see that the successor is truly in charge and leading the charge. If he or she is “President” in name only, the relationships will stay with the predecessor and the transition will fail.

The transition is a gradual process that requires effort both on the part of the departing leader as well as the successor. The successor will have to earn the trust of all of these stakeholders, which will be

facilitated if the prior leader fully supports him/her. When a supplier makes a call to the founder, he or she must say, "Jane is now President and is handling the decision making in that area," rather than falling into the habitual behavior of making the decision.

There is a loss experienced by those letting go of power, identity and relationships as one steps out of a leadership role. That is why it is so important to have the next stage of life designed to be interesting and engaging.

## 7 Succession of Ownership

Finally, succession of ownership is another component of transition from one generation to another. If this transition has not been considered many years prior to a transition happening, tax consequences may make the other transitions very difficult. Family relationships are often impacted by "who gets what." If the business represents the largest asset of the current owners, there is often an inclination to share ownership with the next generation in the business as well as those who are not in the business. This can lead to sibling power struggles and frustration for all.

If the ownership transition is not structured well, the outgoing leader may not have sufficient capital to sustain his or her lifestyle, or the successor may not have a business sufficiently capitalized to continue successfully. There are many considerations and strategies that can lead to successful succession of ownership, which accountants, attorneys and financial planners address as they organize the business and plan for these transitions.

## Planning Succession

These seven dimensions of succession planning should be addressed in a process that begins with a vision: what is the future that family envisions for itself and its assets. When the family considers this future together (rather than just the family leader), it increases the odds that the transition to the next generation will be successful. Having an open dialogue that includes the individual and collective dreams and goals of family members helps everyone consider how they can support each other in achieving individual dreams and how the family assets play into this future.

The open dialogue should be continued in exploring what talents and perspectives are needed in all roles in order to achieve a shared vision for the family and the business. Quite often, family members lack a clear understanding of the skills and dispositions required to successfully lead a business, particularly a family business. A careful assessment of talents needed and then discussion of this with the stakeholders will lead to greater probability of success in the business and harmony in the family.