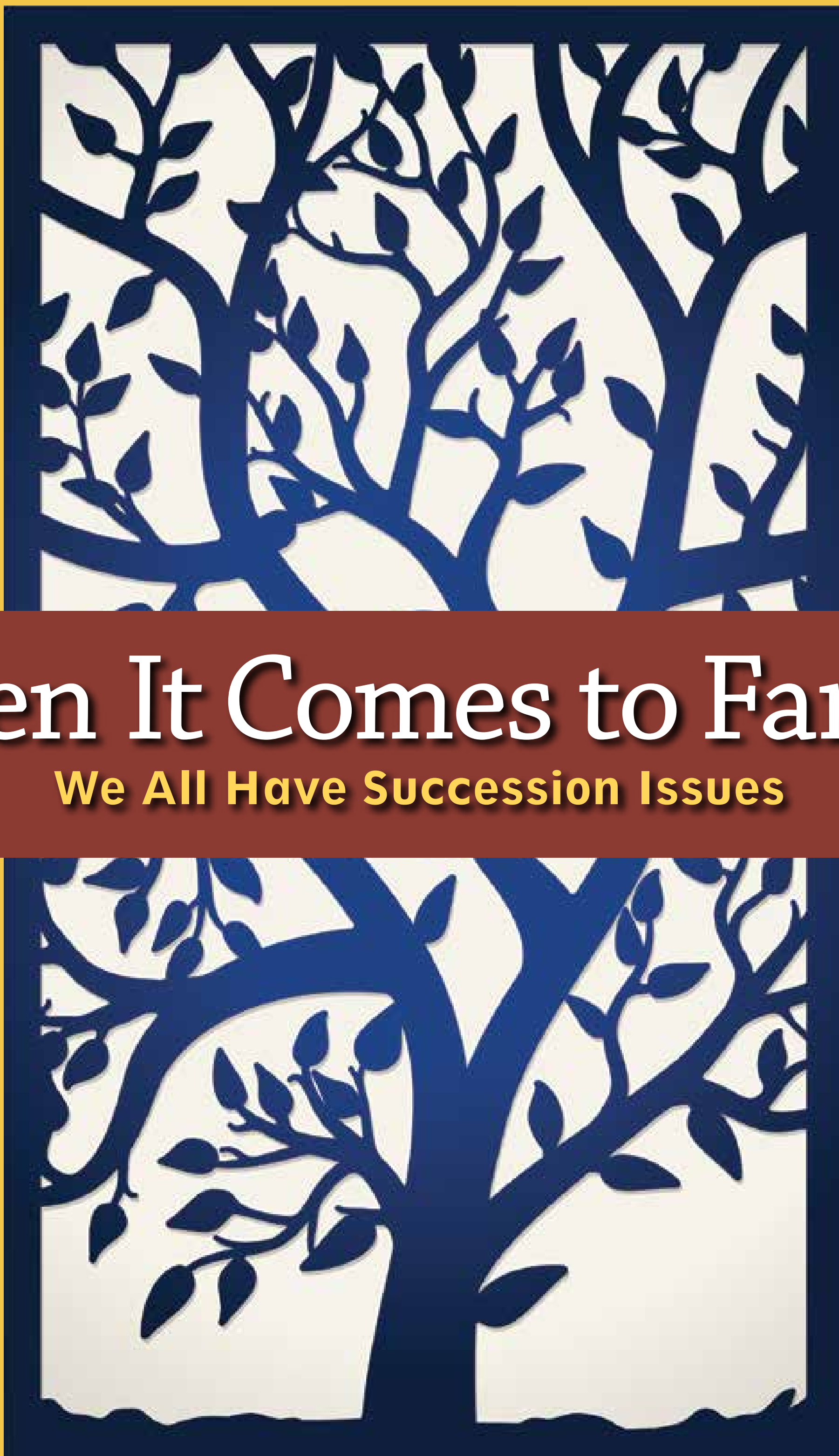
2020 VISION



When It Comes to Family

We All Have Succession Issues

By Steven Wasserman

Leadership succession is one of the most difficult issues owners of family-run-businesses will face. In my opinion, many businesses fail because succession is not handled properly; leaders fail to organize succession before retirement or they never retire, and they do not prepare their children to work together.

Those of us involved with multigenerational family businesses are transfixed by HBO's *Succession,* which follows a fictional family as they deal with their own succession planning debacle. Although *Succession* is pure fiction, generational transitions have made for some of the most colorful business stories of the past decade. Shari Redstone's efforts to maintain control over CBS and Viacom and solidify herself as heir to her father's empire continue to make headlines. Similarly, Disney and Comcast's near $80 billion fight for 21st Century Fox is intimately connected to succession within the Murdoch family.

These families' experiences are not unique to multibillion-dollar public corporations. First-generation hand-offs – when the founder transfers operational control to the successor generation – are notoriously prone to conflict. Although, undoubtedly, smaller private companies do not receive the same coverage CBS, FOX and Disney do, it does not mean that the transfer of control is any less difficult.

The issues multinational companies face are not unique to them. They exist in niche industries, and the funeral service profession is not immune to common succession planning woes. Wrestling with creating a comprehensive succession plan is something all businesses face, regardless of size. One would imagine that very smart people who run very large businesses would have a better handle on how to develop a proper plan, but even at the highest level, this is still difficult to execute.

Succession planning is an important factor in generational hand-offs, and the benefits – or consequences, if mismanaged – are clear. For instance, compare the outcomes of third- and fourth-generation successions such as the Sulzbergers *(The New York Times)* and Bancrofts (Dow Jones). The Sulzbergers successfully transitioned *The New York Times'* board and publisher to the next generation with barely any public notice, in large part due to meticulous preparation and planning. Conversely, the Bancroft family's sale of the marquee *Wall Street Journal* in 2007 resulted in family acrimony and regret years later. These examples reflect the quality of family governance over generations by using outside advisors.

It's easy to see that problems are bound to arise when founders do not focus on the future hand-off of the enterprise they so carefully and thoughtfully created.

Failure to properly plan the transfer of a business often boils down to a simple reason – it's scary for most. Giving away control is not an owner's expertise; his or her expertise is the management of the business. For many owners, it is easy to stay in that place. Family dynamics can be challenging, even during small events such as Thanksgiving dinner, let alone when deciding who will carry on the legacy of the family business! And the concept of giving every loved one his or her "fair share" can cripple family businesses. Being "fair" destroys most businesses and many relationships.

One of the most common practices business owners avoid is working *on* their business; they get stuck working *in* their business. Most owners do not have a succession plan in place. Of the few who do, many of the strategies are overly complex and challenging to both owner and successor(s). One of the most common reasons for avoiding succession planning is that many owners do not have a large pool of talented employees they can entrust with managing day-to-day tasks, which limits how they allocate their time. Although finding talented and motivated employees can be extremely time consuming, this is one of the first steps an owner should take when contemplating a succession plan. Successful companies fill their pools. Successful owners work *on* their business.

While there are many different reasons behind why people push off succession planning, here are a few.

> A guide to handling succession planning the right way for your business' continued success.

1. We Think We're Immortal

As those in the funeral service profession know, life is finite. Long-term tasks are often easy to push off so that more time-sensitive matters can be handled. Succession planning is usually not the most immediate business need, and basic contingency plans, such as a will, can be written to provide generic transition direction. However, once something is set aside one time, it becomes easier to do, and "I don't need to worry about that now" becomes a permanent state of mind.

2. Succession Planning Asks Us to Plan for Our Own Obsolescence

Many entrepreneurs and family business owners have a disproportionate share of their identity wrapped around what they do. This is what gives them the most personal satisfaction. But succession planning forces owners to think of themselves outside of their business, which is difficult. For years – and oftentimes for the better half of a century – owners put in the extra hours that most people would not be willing to and literally shed blood, sweat and tears to build a successful business. Planning for a scenario that does not include them is hard and can also lead to dealing with other challenging questions involving what they want to do after they stop working.

3. Choosing the Right Successor Is Not Easy

Sometimes succession planning requires making difficult choices between competing family members, and most of us would rather avoid that topic than risk ruining a relationship. When evaluating who is best suited to the task, an owner may find that some – or at the worst, all – of their family members aren't and never will be willing or able to assume the reins. While it's easy to objectively say that is perfectly fine, it can be a tough pill for the operator or family members to swallow.

However, not planning leaves the business vulnerable; it could create much larger family issues than if the owner had named a successor. Decisiveness is important and, worst-case scenario, if the owner is labeled as the "bad guy" for a short time, it's important to realize that the choice ensured long-term success.

4. Objective Business Valuation Can Be Painful

We may have to come face to face with the reality that the business isn't worth what we think it is (or we think it will be worth more later).

5. Fear of Creating Internal Turmoil

We may fear that doing this sort of planning will create uncertainty, which will hurt the business, even if that is not true.

6. Managing Daily Operations Gets in the Way

Owners are too busy running the business and making money to worry about a succession plan.

In my opinion, the most profound and least researched question in the family enterprise community is, "Who will take over once I am ready to retire?"

Although there are many thoughtful and capable professionals who can help with the challenges ahead, I recommend a few simple tips that will help provide a better understanding and begin the development of a solid succession plan.

The tips I share here are simple to complete, but they can be time consuming. Executing them takes vulnerability, collective clarity, transparency, objectivity, patience and loads of repetition and discipline. Doing these things is a grind for most people, even when it's vital. This work is critical but oftentimes not urgent, and it can be easy to get distracted with the multitude of daily business tasks. Many times, it can be very hard for people to make tough choices. We tend to loath closing out options.

At the end of the day, planning (whether ownership succession, management succession or strategic business planning) as an exercise is selectively eliminating options and narrowing focus, and we humans struggle to accomplish this. Even though the general process outlined may be hard to complete, if followed, it will assist you when sharing your plan with a service provider, wealth manager or your family.

- *The process should be as objective as possible and begin with the business' needs.* Sometimes, one family member clearly stands out as the next leader, but this is not always the case. A proper process will start with documenting both the long- and short-term needs of the business and identifying the skills the leadership team should possess. Once these items have been addressed, potential candidates can be considered. One element that should not be underestimated is the ability to integrate the culture of the family business. The new leader should display an evident alignment with the family values, work ethic and vision for the firm.
- *A clear, comprehensive vision for the future must be identified and should use empirical data gathered during the evaluation of the business.* Once the needs of the business have been documented, the owner can use the information to drive a future vision for the firm. Is there market potential for expansion? Is there a need to diversify offerings? As the owner works through the vision of the business, he or she can begin to create a rough list of candidates who would best fit with both the current and future vision of the firm. As the vision is finalized and key goals are created, the owner will be free to narrow his or her list of successors.
- *Several options should be considered, including hiring a non-family executive and changing the structure of the leadership team.* The future leadership team is not fixed, and it can take a different form if a change will lead to increased success. In most family or entrepreneurial businesses, the founder is often the CEO, which leaves a substantial hole to fill. However, a restructuring of how business decisions are made can ultimately improve efficiency.

This could take the form of a more collegiate approach, with the creation of an executive committee that works together and votes on business dealings. Too often, family businesses limit their thinking to the obvious candidates, such as the leader's children, which can put undue pressure on the children and severely limit the potential for proper recruitment. Evaluating family members who have not been active in the business can be a good option to foster stronger relationships.

Similarly, considering appointing a non-family CEO can extend the choices to the benefit of the business. Leadership teams can take any form the owner likes but should always be driven by the evaluation of the business and identification of needs.

- *Begin the transition process early and allow the next generation to get involved as soon as possible.* Work closely with those who have been chosen to lead the business as early as possible. After all, the business only became successful due to the systems implemented by the owner. Share all the knowledge you can with the next leadership team. However, it is also vital to understand that while it is important to honor family traditions, this cannot be done at the expense of future growth or firm success. During this stage of the process, the owner can also begin planning beyond the next hand-off and address any internal succession issues that may arise.

• *Be aware of the federal tax reform law Congress passed* and President Donald Trump signed in December, as it has ramifications for family-owned businesses and how they are ultimately transitioned from one generation to the next. But we can leave that for another article.

• *After retirement, remain supportive of the leadership team and act as a mentor.* While some of the changes may be different than would have been implemented by the previous owner, embrace the new direction, provided the choices are logical and made with the intention of increasing overall success. Although it may be emotionally difficult to transfer control, vision and authority of the business, the previous owner can still play an active role and be there to provide sound advice or act as an ear to listen to any issues the leadership team faces. Although the owner may not be officially active in the business, a smart leadership team chosen logically based on a solid succession plan will know to come to him or her if they need help.

We have seen successful business succession plan implementation during a lifetime and/or at death include significant education regarding the planning issues and process among all involved parties and a coordinated effort among your advisor team, including legal, accounting, financial and oftentimes a family business counselor and/or family business psychologist. We find the succession planning process is much more effective if all parties are open to discussion, self-reflection and resolution of current or future conflicts and relationship issues, as well as seeking professional help as needed.

Planning ahead is critical for a smooth business transition. We recommend starting this process sooner rather than later. Without any planning, the result can be intrafamily discord, potentially including litigation, and short-term or long-term damage to, the demise of or loss of control over ownership of the family business.

As each family and family business has its unique issues and goals, with succession planning involving significant and complex considerations, it is important to work through the process with advisors who have extensive experience in this type of planning in order to reach the most successful outcome for your business. ≡

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