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Wisconsin Small Business

# Counselor

*Helping Wisconsin Independent Business Owners*

***Family Business***

The challenge of family business is to maximize business opportunity while balancing individual, family and company needs. This is the fifth article in a series to help Family Business Owners meet that challenge.

***Succession Challenges***

- Planning for Succession
- Objectifying the Selection Process
- Choosing a Successor
- Delegating
- Letting Go
- Separating Ownership & Management

## The Seven Deadly Sins of Succession Planning

Succession is the biggest challenge business owners and their families must face. Studies estimate that 70-80% of all family enterprises don't make it from one generation to the next. Even when the will exists, there is not always a way.

The process of succession involves emotional issues and family dynamics which can cloud judgment and postpone decision- making. When this happens, the results can be catastrophic… for both the business and the family.

The circumstances which work against a successful transition are described below in The Seven Deadly Sins of Succession Planning. Which of them have you committed?

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### I. Failure to Plan for Succession

Without a succession plan, the owner is operating in the world of wishful thinking: Things will work out…somehow. The problem is, the uncertainty over future leadership will eventually threaten business continuity and erode family relationships.

Furthermore he is tempting fate. Death and disability won't necessarily wait until the age of retirement. It's ironic, but the attempt to keep all options open actually limits the choices available to both family and business.

When the owner realizes the folly of his procrastination, he may abruptly disengage. The successor transition becomes unplanned and unmanaged. His departure will send shock waves through the company and undermine the next generation.

### II. Failure to Objectify the Selection Process

Choosing a successor based on sex, birth order, seniority or loyalty can be risky. So is choosing a son or daughter who is a carbon copy of the owner.

Businesses and organizations have life cycles. It may be hard for the successful owner to appreciate that his management style and skills may not be those required to sustain growth and profitability in the years to come. Successor selection criteria should be largely determined by the kind of leadership and management the business will need to meet future strategic and operational challenges.

### III. Failure to Choose a Successor

Family businesses are equal opportunity employers…often to a fault. When choosing one child over another is equated with loving, the owner becomes paralyzed. Even when he realizes the corrosive impact of prolonged sibling rivalry, he may remain indecisive, frequently aided and abetted by the mother of his children who wants only the best for each of them. The situation is further complicated when leaving the business is tantamount to leaving the family.

Letting the next generation work it out is asking for trouble. Sharing presidential authority isn't such a great idea, either. It leads to bickering, organizational confusion, and indecision.

# Letting Go

*"Typically, fathers are not good mentors."*

**IV. Failure to Prepare the Successor Candidate(s)**

Family business owners are notoriously inattentive to executive development. First, being a member of the family is usually all it takes to get into the business.

Roles and responsibilities are often not clearly delineated, and rarely is there performance accountability. Positions may be created for family members (with important titles and responsibilities to match) that wouldn't otherwise appear on the organization chart.

The successor training program consists of providing the candidate *exposure to everything* and making him or her fully *responsible for nothing.*

Finally, there is a belief that everything the successor needs to know can be learned in the company. Typically, fathers are not good mentors. In fact, the successor may step out of his father's shadow by rejecting his approach to management.

**V. Failure to Delegate**

The succession process tests the owner's confidence in his children from the moment they join the

# Facing Retirement and Mortality

*"The business owner is caught between conflicting passions…"*

firm. Competency concerns are magnified by established family relationship patterns and the owner's desire to maintain control. When this occurs, successors are deprived of the chance to learn by making mistakes.

Exposure gets confused with experience. Ultimately, the successor's training must include the opportunity to make decisions he would as "boss". This can be extremely threatening when the successor seeks to prove himself by taking the business in a new direction. But how will the owner who's reluctant to take the small risk of delegating ever bring himself to take the big risk of giving up total control of the enterprise?

**VI. Failure to Let Go**

The business owner is caught between conflicting passions: the desire to control what he has created, and the desire to perpetuate the business. It takes a lot of faith to turn over to the next generation what the owner regards as his.

There are powerful deterrents to letting go which contribute to procrastination. To make succession a reality, the owner must come to grips with the prospect of retirement and his own mortality. For some, no longer working is the same as no longer breathing.

Succession is jeopardized when the owner fails to plan for his retirement. The boss needs someplace to go and something compelling to do. If he doesn't give up the right to return, he will! With his financial security at stake, it is a rare individual who can remain involved in the business without undermining his successor.

**VII. Failure to Separate Ownership Succession from Management Succession**

Owners who have an estate plan designed to provide a financially secure future for the family may have failed to provide a secure future for the business. If that is the case, "the sins of the father can be visited upon the sons" (and daughters!) for generations.

The problem comes from a failure to distinguish family ownership from family management, and the desire to treat all children equally. The family equality concept invites the development of family

# Avoid Postponing

coalitions and dissension between insiders and outsiders.

For the sake of the business (and the family) the relationship between risk and reward must be preserved. In addition, if the successor is to be more than the titular head of the business, the issue of voting control must be addressed.

*Postponing is the major downfall of family firms. To avoid the family dream becoming a family nightmare, begin succession planning now.* Remember, succession is a process, not an event.

Don't lose sight of the fact that family businesses have to meet performance criteria set by a competitive economy. Focus on what the business requires to succeed.

For the owner committed to succession, the first step is overcoming the inherent anxiety and resistance the topic generates. If you feel overwhelmed, obtain competent outside assistance.

*When this article was written, Paul Woerpel headed a Milwaukee based consulting firm, Family Business Dynamics, specializing in family business issues. He was also affiliated with The Executive Committee (TEC), providing personalized management and organizational development services to CEOs in small groups.*

*"Remember, succession planning is a process, not an event."*


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# The Author Today

Paul Woerpel heads *Transformation Consulting Group* a firm that partners with business leaders to achieve extraordinary results through enhanced *strategic thinking* and *organizational agility*.

The firm's innovative consulting approach transforms the way CEOs and their senior teams think about their business and operate their business.

The TCG consulting methodology, honed over 30 years of direct client experience, routinely produces clarity of purpose, focus and direction; shared understanding and shared objectives; improved resource alignment and performance accountability; sustainable and superior business results.

Private sector clients have included manufacturing, retail, service and distribution businesses; companies large and small, publicly owned and privately held.

In 1986, Paul was among the early pioneers in the application of family systems theory to multi-generational family business planning and problem solving (today's accepted best practice). His extraordinary human relations skills and sensitivities remain in evidence throughout his consulting work with leaders and their organizations in a wide variety of industry settings.

Transformation Consulting Group offers:

- Strategic Agility Planning℠
- Family Business Consultation and Planning
- Shareholder Planning
- Board Development
- Leadership and Team Development
- Executive Coaching
- Organizational Transformation and Alignment