10 KEY ELEMENTS OF A FAMILY BUSINESS SUCCESSION PLAN

All professionals develop business plans to map out a strategy to target new opportunities. Businesses develop business plans for the purpose of defining who they are and how they will profile expertise or products to potential buyers. Succession plans are much different than business plans in that the purpose of a succession plan is to develop a strategy for changing leadership. Surprisingly, a significant percentage of family businesses fail to develop and implement a succession plan, justifying the failure as having no time, the process is too complex or the fear of creating conflict by and among family members. The undesirable result of not developing a succession plan is usually evidenced by the overwhelming difficulty to survive multiple generations.

The succession process is a major challenge for family business in that most fail to remain a family business past the second generation. Among those that do succeed, a key concern is how nonfamily personnel will receive a successor. Perceptions of nepotism in succession can undermine nonfamily employee commitment to the business and their continued participation in the firm. Addressing this issue can be difficult because the ability to choose a family successor and provide employment opportunities for family members is often a primary concern of family business owners. A key challenge for family businesses is gaining buy-in from nonfamily employees for the next generation of family leadership.

Communication, strong relational bonds, and proven successor fitness are keys to an effective succession process. The best succession handoffs are often years in the making, giving employees needed time to prepare for this transition. In fact, upfront conversations about the family's succession intentions should occur before firms hire nonfamily employees. Research reveals job candidates have polarized opinions about working for family businesses. Letting prospective employees know the firm's motivations and intentions can prevent discontent down the road. For current employees, potential successors should also be introduced to nonfamily employees early in the process. Familiarity breeds trust and cooperation as employees need time to become comfortable with a successor. The relational capital created between the successor and employees from these interactions can be pivotal in fostering acceptance for family succession well before the handoff occurs.

Nonfamily employees often sense that family members have less accountability or responsibility than they do. To counter the adverse effects of such perceptions, aspiring successors should demonstrate competence and model accountability. Credentials such as education or outside experience can assuage nonfamily employee fears that the successor is simply the product of nepotism. Such displays of aptitude for leadership can foster buy-in among concerned nonfamily employees. Likewise, family firms should demand more from aspiring successors. Longer hours and tougher assignments during the transition process can inspire confidence among nonfamily employees as to the dedication of the successor. This can help reassure employees that a family successor is the right person for the job.

It is important to note that a succession plan is not a static document that is drafted and then placed in a file cabinet. Transitioning leadership from one generation to the next is a process. For the process to be successful, it must be fluid. In order for it to be effective, the plan must be understood by all participants, make everyone accountable and create a path for the integration of both generations. Most importantly, the process should begin as early as possible so that the founders can identify who is "on the bus" and who will remain spectators. Once this fact is established, goals should be outlined and communicated, including the required qualities of the next generation of leadership.

The following elements should be included in a business succession plan:

1. Mission statement and goals of the business, as well as the individual family members who are participating in the business and retirement plans for older members.
2. An agreed-upon exit strategy.
3. Valuation methodology for the business.
4. Corporate structure.
5. Retention policy for productive employees.
6. Financial goals and tax planning for the business.
7. Overview of legal issues, shareholder agreements and human resource policies.
8. Estate plans for each of the family members.
9. Methodology for identifying and training successors.
10. Contingency plan if the business model is not working.

Identifying a vision statement of the business, along with its core values and principles should be the starting point for the succession process. Leadership should be developing and revising short- and long-term goals for the business on an annual basis, as well as projecting which family members will remain or retire. It is important that there is an agreed upon path for the next generation in order to develop the type of leadership skills necessary to participate in management. The initial board of directors will more than likely include the generation that will ultimately retire and it is important to outline a path for the next generation to participate at some point as the older generation retires. The succession process should be consistent with the core values of the business with the ultimate plan holding everyone accountable for the ultimate success. For more information or if you would like assistance with your organization's succession planning process, please contact PLDO Managing Principal Gary R. Pannone at 401-824-5100 or email gpannone@pldolaw.com.

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