



Succession planning for small-to medium-sized family businesses: A succession planning model

By FRED BURKE, CGA

Introduction: A succession planning model

Many entrepreneurs view their business ventures as extensions of themselves, encompassing the vision and passions they have in both their personal and professional lives. For the most part, they welcome their children into the business based on trust and a belief that they have or will develop the same level of passion as they themselves have. They believe the business will automatically transfer to their children when they are unable to carry on and so feel that planning this transition is not required. Perhaps it is the fear of facing the moment when they are unable or unfit to carry on.

Sadly, the fact is that fewer than half of viable small- and medium-sized businesses are able to survive past the first generation and, of these, very few are successfully passed on to the second and third generations – often due to the lack of an agreed-upon strategic vision and ineffective succession planning.

Throughout my business career, I've had the opportunity to work within well-known multinational corporations, including Mars Incorporated, one of the world's largest private and family-run consumer packaged goods companies. For the past nine years, as Chief Operating Officer of InterCorp Excelle Foods Incorporated, a medium-sized family-run business, I have seen entrepreneurship flourish at the "grass roots" level as well. I believe there are many similarities in the way large and small entrepreneurial organizations manage their companies effectively, with a view to passing them on to the next generation of owners. In essence, by following an effective succession plan, the entrepreneur will protect the company's culture and enable the implementation of a long-term business strategy that will smooth the transition phase that is required to pass control to the next generation.

The goal of this paper is to present a succession planning model that describes the key elements and challenges of an effective succession plan, focusing on the concerns of small, family-run businesses. It must be emphasized that this is but one part of the process: a well-defined succession plan must be supported by appropriate estate and tax planning as well.

Introduction: A succession planning model

Stage 1: The business case for proactive succession planning

Stage 2: Identification of target roles and positions

Stage 3: Determination of core competencies and skills

Stage 4: Identification/assessment of successor candidates

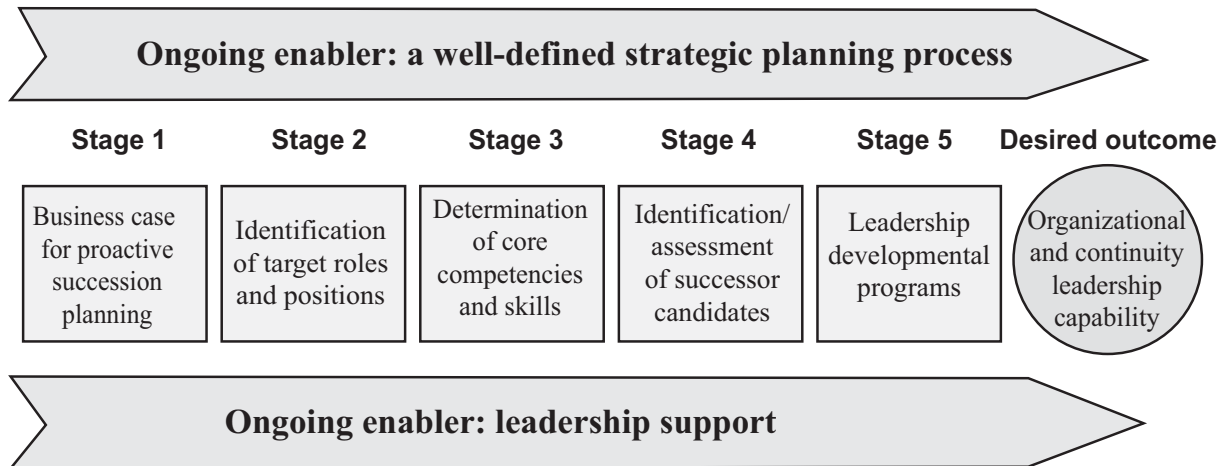
Stage 5: Leadership developmental programs

The desired outcome: Organizational continuity and leadership capability

Concluding remarks

In the diagram below, the enclosed squares represent the five principal stages of a succession planning model. Above and below these are thick arrows showing ongoing enablers – a well-defined strategic planning process and leadership support, which includes competitive compensation and access to high-level performance management tools and processes. The combination of these key enablers will drive organizational and leadership continuity – necessary elements of organizational success.

Five principal stages of a succession planning model



Ongoing enabler: A well-defined strategic planning process

A formal strategic planning process and a succession plan are integral elements of family business success. Formalizing a mission statement is a key first step in order for the owners to clearly articulate and communicate the vision, culture and values desired throughout the organization. Many entrepreneurs will suggest that written mission and values statements are not necessary; however, completing the task of writing them ultimately commits the entire organization, including family members, to accept and implement that vision.

In the end, the strength of the strategic planning process has a direct impact on the future transition of the business to the next generation. Assuming a healthy, structured, and analytical debate in the preparation of a business plan, the risk of family differences arising as to what direction the business strategy should go is either eliminated or greatly reduced.

The five principal stages of our succession planning model are:

- Stage 1: The business case for proactive succession planning.
- Stage 2: Identification of target roles and positions.
- Stage 3: Determination of core competencies and skills.
- Stage 4: Identification/assessment of successor candidates.
- Stage 5: Leadership developmental programs.

Stage 1: The business case for proactive succession planning

Stage one requires the entrepreneur to develop a business case that includes succession planning. This, in turn, requires the entrepreneur to articulate a clear vision and company mission encompassing the business culture and values. The mission statement is the foundation for developing a strong strategic planning process that incorporates the development of a longer-term business plan. Requiring the entrepreneur to envision where the business will be in the next five, ten, and twenty years requires the making of decisions about organizational structure and effective leadership. In turn, this focuses creative debate around

assessing the degree to which the owner's retirement and attrition issues will impact on the management of the controlling interests of the business in the future, and leads ultimately, to a decision to either carry on the business in perpetuity or to divest at a strategic time in order to obtain maximum value for the shareholders.

There are numerous considerations to take into account in developing a business case that works for each owner but, with the inclusion of a succession plan, it is especially critical to fully understand the long-term impact of the following five factors:

- industry sector, market share, competition and barriers to growth;
- long-term business strategy for growth and required return on capital investments;
- independent business valuation and the potential to increase brand equity over time;
- timeframe for implementing a succession plan;
- commitment, ability, and leadership potential of family members.

For successful organizations, a formal strategic planning process is an ongoing business activity. Developing a business case is a total company effort, involving all family members and senior management, who assist in identifying key roles, responsibilities and organizational structure. The business plan is reviewed annually, modified if necessary, and validated against the long-term vision and values of the company's owners.

The business case for succession planning differs from the ongoing planning activities in that it occurs at certain points in time when the family business has either reached a critical mass, or family members become interested in working in the business and express a desire to develop their careers with the organization. These situations necessitate consideration of organizational and leadership continuity. Analysis of all aspects of the business plan strategy is necessary in order to develop a realistic business case for succession planning.

Stage 2: Identification of target roles and positions

The second stage of the model is aimed at identifying the critical workforce segments within the business. It is important to recognize that this should not be based merely on slotting people into specific roles or responsibilities (i.e., developing roles for current employees or family members). Rather, it is an assessment of the key positions required to achieve business targets at various stages of the business plan. This analysis serves to set priorities among the various key or "at risk" positions identified, as these are the positions that will support or drive growth initiatives which may or may not exist at the time of planning.

Ongoing enabler: Leadership support – role of the Board of Directors and other advisors

Developing and implementing a succession plan strategy generates a number of emotional issues in most family businesses, and the process is most effective when it is facilitated by independent counseling from a number of sources. The earlier external management expertise is introduced into the succession planning process, the more likely the plan will fit with the business vision. An independent viewpoint acts as a steering mechanism or "reality check" to ensure that the appropriate organizational structure is in place to enhance the likelihood that the business will survive through the transition phase. This independent viewpoint also reinforces the need for timely succession planning, and ensures that owners understand the significance of structured estate and tax planning.

Stage 3: Determination of core competencies and skills

Once key and "at risk" positions are identified in the business plan, core competencies and skill-sets for the target roles must be determined. This will provide a baseline for assessing

performance that will identify gaps within the current workforce – including those in the owner and family members – and serve as a framework for recruiting the talent required to meet strategic goals and key objectives. By focusing on the broader organizational requirements of the business, the entrepreneur and family members will be better able to assess where developmental “gaps” exist and, if there is interest from family members, to motivate them to gain the skills and competencies required to fill those key positions.

Ongoing enabler: A well-defined strategic planning process and leadership support – balancing business and personal needs within the family business enterprise

A major element of the succession planning process is the identification of individual family members’ outside/personal needs and activities in relation to those of the organization. In order for family members to be considered for key positions or as “successor candidates,” there must be an inherent commitment to developing the necessary skills and competencies to meet future business needs. This is a complex area involving a number of interrelated issues, including trust and confidence in the ability of others to assume leadership roles and responsibilities, delegation or resolution of conflicting duties, and the ability to make the personal sacrifices required in order to “learn the business.”

Family members must be fully informed, involved, and have access to opportunities to best develop an effective succession strategy. They must be treated as equal employees in order to gain respect from non-family staff members. However, they have other responsibilities over and above executing the business vision. They must maintain the vision over time and changing circumstances; they must develop new and innovative ways of working together; they must move into new and different roles in order to gain a broad business sense; and they must get involved in corporate policy and strategy as integral members of the Board of Directors or advisory team. In this way, they become acutely aware of the business needs and competencies required in the key positions.

Stage 4: Identification/assessment of successor candidates

Stage four involves the development and implementation of a rigorous, competency-based performance management process to identify high-potential candidates within the organization. If internal candidates do not meet the set criteria, then a reliable and fair selection process for locating external qualified candidates may be necessary.

It is imperative that the family work with an outside expert during this stage of developing the business plan, as members will benefit greatly from the expertise of a communication facilitator who can control family emotions and act as a sounding board. Sharing information with all family members openly is important to ensure that they fully understand that there is no “free pass” as the successor candidate, and that each must possess the necessary business and educational qualifications, just like any other applicant.

Ongoing enabler: Leadership support – the importance of a positive work environment

The culture of an organization must be well-defined and consistently reinforced. It must recognize and reward employees and family members equally, and train and promote from within, while attracting new talent and knowledge to the organization based on an accepted business strategy. Determining whether one, or any of the family members, has the ability or interest to acquire the necessary skills and competencies to lead the organization is a key outcome of the succession plan.

There is a strong argument that leaders are not born; rather, they develop over time by learning new skills and competencies. Family members can be given the opportunity to discover their “natural” management styles and understand the differences in their personalities and business philosophies. A family member may be identified as a potential successor candidate but not want the responsibility, whereas, another may desire to be the leader, but not want to invest the time to develop the skills and competencies necessary in order to be effective.

Stage 5: Leadership developmental programs

The final stage of the succession planning model consists of a review of current and required training and development practices. The objectives focus on ensuring that potential successors are receiving sufficient development opportunities on a regular basis. This training should involve a mentoring program, job development opportunities, special assignments and projects, and formal evaluations of progress, as well as independent feedback through external training.

As part of the ongoing training and development activities, the successor candidate should accept positions outside the family organization. Practical, first-hand experience with a variety of work practices is invaluable to the candidate who is able to develop business experience outside the comforting environment of the family business. The identified successor can assess different cultures and values, and new mentors and innovative ideas, and eventually incorporate those experiences back into the family organization.

Ongoing enabler: Leadership support – personal and inter-personal development

In addition to in-house training, external team-building exercises and regularly-scheduled “family retreats” become critical in developing a succession strategy. The knowledge gained from a retreat session can teach family members how to successfully manage the delicate relationship between family and business. The education and learning experiences should be very broad, ranging from general management and leadership instruction, assessment of diversification opportunities and specific evaluation of business practices, to wealth management, family investment strategies and even parenting skills.

Through these ongoing interactive sessions, participants understand better what their needs and desires are *versus* those of non-family employees and the business itself. They also have a better opportunity to identify the skills and competencies of a successor candidate, and can evaluate whether that person is a qualified family member, or if it would be in the best interests of the business to hire an external candidate.

The desired outcome: Organizational continuity and leadership capability

If the succession plan strategy suggests that control of the business should be transferred to a chosen family member, this may necessitate a longer transition period before the leadership role is actually assumed. In many cases, the outcome of stages 2 and 3 of the succession planning model will determine that key positions are filled by talented external non-family executives, while allowing family members to develop and grow in the interim period. Therefore, the actual succession planning process is initiated well before the owner is contemplating retirement.

In other cases, the succession strategy process may determine that non-family members wish to remain actively involved in the business after the entrepreneur retires or begins to withdraw from active leadership. This suggests a number of options, among which, either to hire

talented external management to run the operation on the family's behalf and generate ongoing income or dividend streams, or to divest of the business at a strategic time in order to obtain maximum value for the shareholders. It is best not to force family members to choose the family business as their vocation. They must feel the passion for involvement and make their own decisions. If they choose to enter the business after developing their own talents and exploring other business opportunities, then the company will greatly benefit from their outside perspective.

In either instance, the decision will have resulted from a well thought out business case that has considered all aspects of organizational continuity. Business ownership has always been about creating wealth and value for shareholders, and if this is accomplished without the transition of leadership to the next generation, then the owner can be confident that the right decision has been made.

Concluding remarks

Succession planning is likely one of the most complex and emotional issues family businesses will face. The participation of all family members who are directly involved in the day-to-day operations of the company, even at a minimum level, is critically important as the succession plan is implemented.

A successful strategy involves acceptance of an agreed-upon process and effective board governance throughout the lifetime of the company. The underlying business strategy is determined through the formalization of vision and mission statements that are reinforced through a strong, well-defined culture and via organizational values. Each stage of the succession planning model must be fully analyzed and debated. The strategy must be developed in conjunction with an acceptable business case, and needs to be balanced with constant, organization-wide planning. Input from independent sources, either Board advisors or experienced facilitators, is absolutely necessary so that family members can gain an understanding of the qualifications required of a successor candidate and share openly, to express their willingness and desire for continued involvement and commitment to the family business. The end result of this strategy-setting is clear communication and the mobilization of all employees to create synergy and organizational continuity.

Suggested reading

MWorld, the American Management Association membership website, *Family Business Succession Planning*, Winter 2003.

Cohen, D. S., *The Talent Edge – A Behavioural Approach to Hiring, Developing, and Keeping Top Performers*, John Wiley & Sons, Toronto, 2001.

Deloitte & Touche, *Strategic Succession Planning; Developing and Retaining Talent; Sustaining Vision, Culture and Leadership*, miscellaneous brochures, 2002.

Fred Burke, CGA, is the Chief Operating Officer of InterCorp Excelle Foods Incorporated, a medium-sized family-run business that manufactures, markets, and distributes over 300 food products, under such brand names as Renee's Gourmet and A1 Steak Sauces, throughout Canada and the United States. Fred currently serves as an executive member of the Board of CGA Ontario and has served as governor since 1994.