



Institute for
Family Business
with UCG

Family Business Challenges

Planning Succession



The *Family Business Challenges* series

This guide is part of the *Family Business Challenges* series commissioned by the IFB Research Foundation. The series offers practical guidance for family business owners seeking to manage the unique challenges and opportunities they encounter.

The series provides concise information on a broad range of topics – covering family business dynamics, governance, performance, succession and family business wealth.

Each guide, which is illustrated by a real-world case study, is divided into three sections:

1. **Defining the challenge** – clarifying the issues and summarising expert thinking.
2. **Actions to consider** – ideas and strategies to help family business people meet the challenge.
3. **Resources** – annotated further reading.

The publisher

About the IFB Research Foundation with UCG

The IFB Research Foundation with UCG is a charity (no. 1134086) established to foster greater knowledge and understanding of family firms and their contribution to the economy and society, as well as the key challenges and opportunities that they face.

The Foundation's vision is to be the UK's centre of excellence for family business research, and to this end its publications are designed to create a better understanding of family business for the benefit of all stakeholders. Alongside *Family Business Challenges*, its work covers a broad range of publications, including:

- *Family Business Sector Report* – benchmarking the size and importance of the sector.

- *Family Business Research and White Papers* – thought leadership on key family business characteristics and issues.
- *Family Business Case Studies* – showcasing family business exemplars.

The Foundation disseminates knowledge and best practice guidance through printed publications, online media accessible via the IFB website and other activities, including the IFB Research Foundation Annual Lecture.

About the IFB

The Foundation works closely with its sister organisation, the Institute for Family Business, which is a membership association representing the UK's family business sector. The IFB is a member of FBN International, the global network for family businesses.

www.ifb.org.uk

Planning Succession

1 Defining the challenge

Transferring management and ownership of a family business is the most difficult and risk-laden phase. Some owners regard succession as simply a question of handing over a tried and tested way of running the business from one generation to the next. In fact, succession triggers a *system* change – a transition to a different business structure with a distinctive culture, new procedures and evolving ground rules.

Well-organised management succession can improve performance. When choosing new leaders and senior managers during the succession process, the selection criteria should be merit-based.

Emotional factors can make the challenge especially hard for seniors:

- They worry whether the next generation is ready, willing and able to take on leadership.
- Parents often dread “choosing” between their offspring.
- Psychological forces make seniors reluctant to face up to retirement, with fears about mortality, loss of control and personal identity.

Next-generation successors have their own concerns – about whether the family business is the right career choice for them and whether they can live up to the expectations of their predecessors (the weight of history). They also worry whether they have the right skills and experience to add value to the business, and whether they’ll establish their independence and earn respect.

The best transitions are a process (not an event) supported by inter-generational teamwork. Planning cannot start too early, with seniors and the next generation acting in partnership to build the methodical approach needed to overcome all the forces that favour doing nothing. In the best transitions:

- Seniors view succession as a positive step (see Exhibit 1).
- Retirement is *to* a new role, not *from* an old one.
- Seniors let the next generation know they will be welcomed into the business, but not coerced.
- The next generation play a constructive role in seniors’ retirement, helping them to discuss their hopes and fears.
- Non-family directors and trusted senior managers play important roles in the succession process.
- Both generations take advantage of outside support, including from family business advisers.

Exhibit 1: A new kind of goal

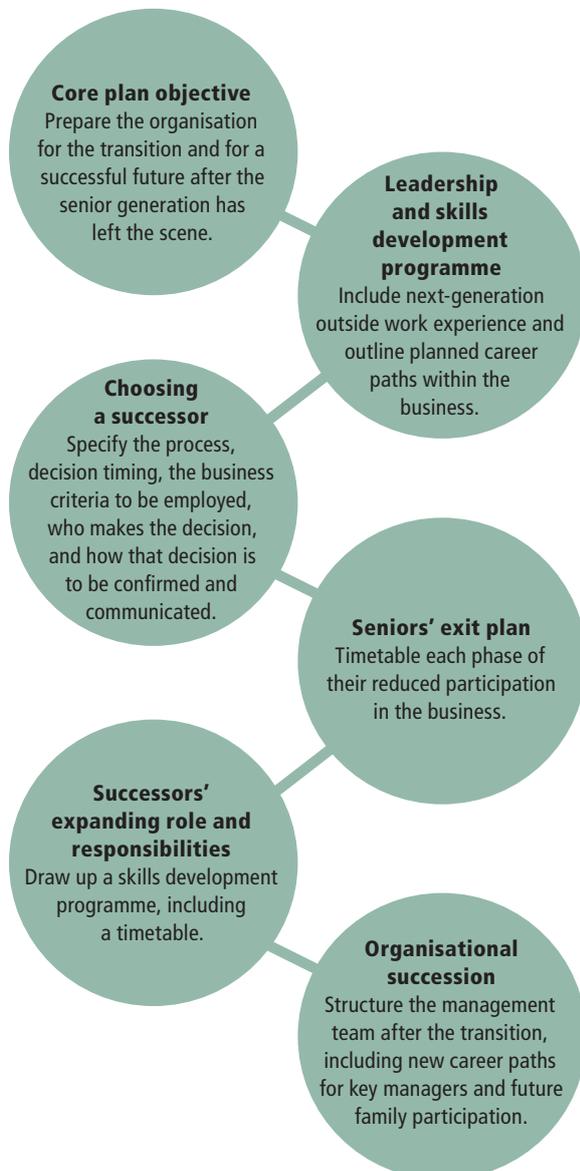
“Planning and implementing succession can be as creative and fun and challenging as launching and growing a business. The goal now is not to build the business, but to successfully pass it on while at the same time shaping a satisfying, enjoyable future for yourself. Incumbent CEOs who channel their energy and enthusiasm to this new goal are far more likely to relish the succession process than if they dwell on a wish to continue running the business for ever.”

Source: Craig E. Aronoff, Stephen McClure and John L. Ward (2003) *Family Business Succession: The Final Test of Greatness* (second edition), Marietta, GA: Family Enterprise Publishers, p.14.

Document the succession plan.

Succession plans must be written down to help remove vagueness, assumptions and guesswork (see Exhibit 2).

Exhibit 2: A written succession plan as a minimum should cover...



Implement the transition step-by-step.

Once the choice of successor is made, leadership and control can be transferred step-by-step, allowing for the smooth adoption of new roles and responsibilities by both generations.

Promote evolution over revolution.

Succession is a predictable and natural process in the life cycle of individuals, families and their businesses. Once families have decided on their priorities, then careful planning, preparation and implementation will help to prevent psychological forces stirring family conflict.

2 Actions to consider

- Have fundamental strategic issues been discussed, including whether our business should stay family-owned, and whether succeeding generations are able and willing to take over management?
- Does our family have an agreed and documented succession plan?
- Have lessons been learned from how our family identified and prepared past leaders?
- Are there appropriate training, development and transition programmes in place for next-generation leader/s?
- What would happen and who would take over if our family business leader was incapacitated tomorrow? Do we have contingency plans?

Case study: Wates Group

No two companies or families are the same, but Wates, the wholly family-owned construction services and development group, provides a good example of how imagination and forethought can help to fashion a tailor-made succession plan.



Wates succession: Andrew Wates (third from right) with family members, including Tim Wates (second from left).

In 2006–08 the family passed through a complex transition from the third to the fourth generation (G4), based on planning that had begun back in the late 1990s. “My advice would be to make succession planning a continuous process” says retired group chairman, Andrew Wates: “Indeed, we’ve already opened a dialogue with youngsters in the fifth generation. The three key ingredients of a successful transition are transparency, dialogue and fair process.”

There’s a compulsory retirement age at Wates, but the family’s innovative approach

to G4 succession was based on the senior generation “progressively stepping back rather than stepping down” – which in Andrew’s case centred on relinquishing his responsibilities as family chairman and taking on a leadership role at the company’s charitable foundation, Wates Giving.

Detailed succession planning at Wates was based on empowering the next generation, involving psychometrics, working up individual development plans, team-building and coaching – all supported by outside advisers. At the same time, and adding extra complexity, the family was moving from a managing-owner to a governing-ownership role in the business, following on from the appointment of the group’s first non-family CEO.

The family transition culminated in 2008 with the five members of G4 electing Tim Wates to be Andrew’s successor as chairman of Wates Family Holdings.



3 Resources

Articles and reports

The Succession Conspiracy

Ivan Lansberg, *Family Business Review*, June 1988, pp.119–143.

This classic paper explains the forces that come in to play during transitions.

The Succession Task Force: A Tool for Managing Challenging Times

John L. Ward, *The Family Business Advisor Newsletter*, November 2008, p.1.

This article summarises the benefits and the mechanics of forming a succession “task force” – an independent entity under the authority of the board, that guides and supports all parties through succession.

Books

Family Business Perspectives: Succession

Published by the IFB Research Foundation (2008).

The guide includes practical frameworks and effective strategies for managing generational transitions.

Family Businesses: The Essentials

Peter Leach, published by Profile Books (2011) (and see in particular Chapter 7, “Managing Succession: The Leadership Challenge”).

This chapter is strong on explaining why preparation and planning for succession are so difficult.

Family Business Succession:

The Final Test of Greatness

Craig E. Aronoff, Stephen L. McClure and John L. Ward, published by Family Enterprise Publishers (2003).

A broad-based source of practical advice.

Family Business Challenges

The *Family Business Challenges* series of guides offer practical guidance for family business owners. Each guide identifies issues commonly faced in a particular topic area, suggesting strategies for managing the tensions and competing demands that arise. Titles include:

Family business dynamics

- Understanding Family Business
- Maintaining Family Values
- Developing Stewardship
- Promoting Sustainability

Family governance

- Managing Differences
- Building Family Governance
- Strengthening Family Communication
- Fostering Responsible Ownership
- Managing Communication:
Owners and the Board

Family business performance

- Fostering Entrepreneurship
- Professionalising the Board
- Maximising People Capital
- Employing Advisers

Family business succession

- Engaging the Next Generation
- Planning Succession

Family business wealth

- Selling the Family Business

Growing successful enterprises
for generations to come

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