Succession Planning: Start in the Right Place

By David C Bentall

Arguably, when it comes to family business, no topic is more important than succession planning. It is vitally important for the future of the family and the business. Yet, quite frequently, the succession planning effort begins at the wrong place.

Stephen Covey popularized the phrase, "Begin with the end in mind," and it is hard to argue with the wisdom of his statement. However, when it comes to succession planning, what is the end that we should have in mind? When thinking about this critical topic, where should we start? Let us consider the options.

A strategic planner might say that planning for the future of the business is the first priority. Ultimately, they are right, at least in one sense, because if the family enterprise fails, the need for succession planning becomes irrelevant. Without a vision for the future, a family business is at risk of working on details which may not serve the real objectives. Looking at the big picture would be a logical starting place.

Some may say we should start with considering what the owners or the elder generation would like to see happen to the business. After all, they are the ones who own the business; we should ask them what they want to see happen in the future.

However, if you ask a tax advisor, you will hear that planning to minimize taxes when transitioning from one generation to the next is essential. Skillfully choosing the most tax effective strategy is critically important to avoid foolishly squandering all that has been achieved with the business over many years.

A financial expert may suggest that the key to succession planning is to proactively assist the elder generation to withdraw some of their resources from the company. They would stress this is important in order for "mom and dad" to enjoy their well-earned retirement years. In addition, they might point out how important it is to create an environment where the successor generation can begin to run the business with more autonomy. This can only happen if everyone is confident that any miss-steps in the business will not cause financial hardship for the elders. Failure to create this situation has often been the "Achilles heel" of many good succession plans.

If we asked a human resource professional where to start, they would likely emphasize the importance of training and mentoring for successor candidates. While the would-be successors may or may not be family, and the options may not be obvious, grooming the future leadership of the business is essential.

Each of these considerations is a valid place to start the succession planning process. In fact, beginning the process with any of these priorities would be constructive and could lead to some good results and potentially a good plan. However, the story with succession in my family illustrates a common and risky oversight not considered above.

In our family, my siblings and I were beneficiaries of what was essentially an estate freeze. While this was good tax planning, we were never consulted about whether or not we wanted to be partners with each other. In addition, we were initially made co-owners with our cousins, again through a series of estate freezes. In nearly twenty years of being co-owners, we were never asked if we wanted to be business partners. An involuntary shareholders' arrangement of this sort is a host for many problems. Often, a family who inherits shares may not see the responsibility that comes with the ownership of the company. When the younger generation is not involved with the business operation, often they will not be as committed as their parents to the ongoing concern of the business. Alas, many who wind up in this situation get caught up in political debates over power, rather than thinking about the health of the enterprise.

In contrast, Fred and Ron Mannix (Manalta Coal, Alberta) were asked by their father many years ago if they were interested in owning the family company. They were interested, so he gave them the responsibility to develop a co-ownership agreement and a strategy for the future, which they were to submit to him for approval. It took five years and much iteration, but they eventually created a plan that met with their father's approval, and the shares in the company were transferred to Ron and Fred.

Asking the next generation what they hope and dream for in their lives may be the optimal place to start the succession planning process. If they are interested in owning the family enterprise, then considering how this could be accomplished becomes policy. No one really talks about it or questions it openly. Family members just adhere to it because they think that's what's expected of them or because "that's the way we've always done it."

When family members go through the process of consciously creating policy and putting it in writing, however, they are making policy explicit. The process enables family members to question assumptions and understand differing perspectives. And all can participate in making decisions about how they will govern themselves in the future.

When policies are not explicit, family members are free to interpret decisions any way they choose. The chances for misinterpretation, misleading information, and miscommunication increase. But if policies about how future decisions are to be made are fully discussed and laid out in advance, the family has a template from which to proceed. And chances are increased that family members will all be on the "same page."

Family members become more educated on many levels. Creating policies requires them to become even more knowledgeable about the business itself but also necessitates becoming familiar with, and knowledgeable about, the issues being discussed. Employment policies, for example, require investigation into employment practices. Compensation policies mean learning what compensation practices are being followed in the family's industry. Shareholder agreements call for educating yourself as a shareholder so that you can participate effectively in the discussion. In other words, when done right, the process of developing family business policies requires thought and homework.

The family-business continuity-planning process is enhanced. In the largest sense, policy development is about continuity planning -- that is, how we prepare and educate the family to continue into the future as a successful, healthy and strong business-owning family.

When a family creates policies, it is looking at all the elements that go into family-business continuity - the family's mission and vision, its values and beliefs, its principles and philosophies, its covenant or pledge (that is, what the family expects from the business and what the business has a right to expect from the family), and the business' strategy, culture, performance, and governance.

When family members work together to create policies, they discover what is important to them as a family and as individuals. They gain major skills in communicating with one another effectively. They learn the art of compromise, in its finest sense. Creating policies helps the family sort out its values and know what it stands for.

REASONS TO DEVELOP A POLICY GUIDE

1. Avoid or solve problems before they occur.
2. Reduce future family tension.
3. Strengthen the family with experience in coming to agreement.
4. Clarify your family's positions and reduce misunderstandings.
5. Help the family sort out its values and know what it stands for.
6. Improve future decisions by insuring that policy formation is informed and objective rather than made in the heat of battle.
7. Create more enthusiasm for, and knowledge of, the business.
8. Increase the likelihood of long-term business and family success, survival, prosperity.