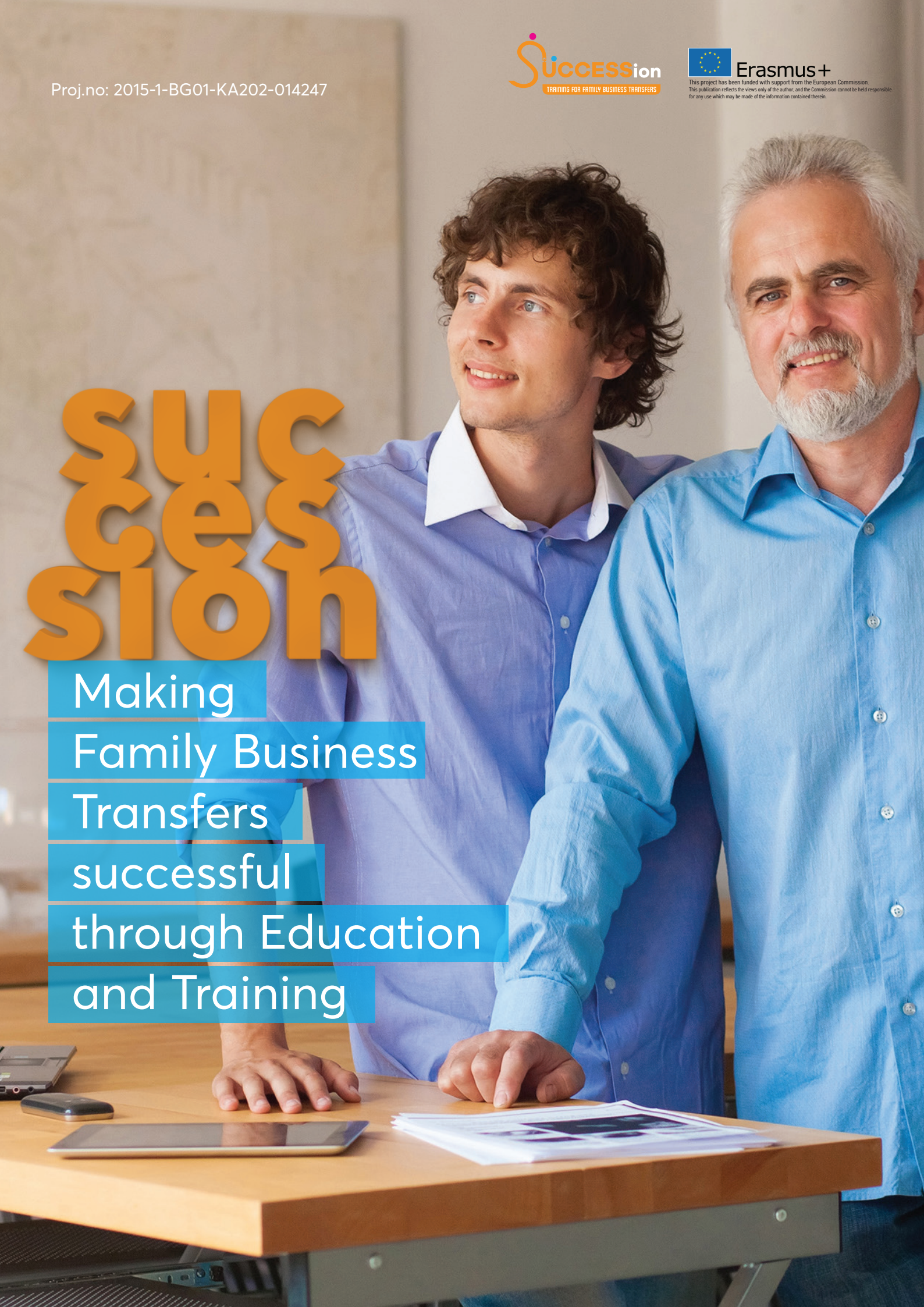
Proj.no: 2015-1-BG01-KA202-014247

SUCCESSion
TRAINING FOR FAMILY BUSINESS TRANSFERS

Erasmus+

This project has been funded with support from the European Commission.
This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.



succession

Making Family Business Transfers successful through Education and Training

SUCCESS...ION - Making Family Business Transfers successful
through Education and Training
Proj.no: 2015-1-BG01-KA202-014247

FAMILY BUSINESS SUCCESSION AND TRANSFER: A COMPANION FOR BUSINESS ADVISORS

February 2017
Project coordinator: Yambol Chamber of Commerce and Industry (Yambol, Bulgaria)
February 2017

This project has been funded with support from the European Commission.
This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Background

Family businesses are the most common form of enterprise in the world. As the name stipulates, family businesses distinguish themselves from other types of enterprises by the interaction or mutual overlap between two systems (business and family). At this interaction lays the foundation for the strengths and weaknesses of the company. Family firms combine all the tensions of family life with all the strains of business life, and at no moment do both sorts of stress combine so forcefully as at that of generational change.

The problem faced by many family businesses is that the two systems are not necessarily compatible, since families and businesses exist for fundamentally different reasons. Family entrepreneurship is somewhere in between family relations and goals, and company's relations and goals. It is difficult to recognize the relation between family bonds and values, and running a company. Managers of a family enterprise, whether intentionally or not, minimize the degree of importance of family and social factors, and focus on economic aspects of business activity.

In general, in management literature, succession is the process of replacing one leader with another (Bass, 1990). Such a process is a political one, associated with transfer of power followed by major changes in the organization and its strategy. The main goal of succession is to achieve organizational and strategic renewal. Management succession in family firms are often forced upon the family due to need for retirement, and the successor is often selected with the purpose of continuing the family tradition.

Succession in a family business is not an event but a process. It involves the transfer of both management and ownership, and is not complete until both management authority and ownership rights pass on. But they tend not to occur at the same time. At the same time, a lot of attention continues to be paid to the technical component of succession (e.g., tax minimization, estate freezes, family trusts, buy-sell agreements, wealth management, etc.) with far little attention being paid to the people or non-technical component (family communication, family expectations, family values, family competencies, family dynamics, etc.) of the succession process.

Professional advisers to family businesses need to incorporate into their advisory services proven strategies to assist family business owners and their successors in managing the all-important family component. It is no longer sufficient to inform them of the need to do this; they must be advised on how to do it while successfully directing both management and ownership succession plans while preserving family and business harmony.

About the Project

The aim of this project is to help family business owners, their advisors, and business support organizations to upgrade their non-technical skills. Legal and technical planning does not ensure a successful transition of the business any more. Rather, it is how well the family is prepared to deal with the transition that is much more important. This entails the fostering of skills and competences, which are transversal, i.e. beyond the technical/managerial skills:

- Communication skills in family context as interwoven in business context.
- Understanding of emotional conflict potential of a family business.
- Decision making with respect to succession and transfer involving biological kin, in-laws, and non-kin parties.
- Critical thinking (i.e. ability to reach well-reasoned conclusions, being open-minded, making formative assessment of consequences and benefits, etc.).
- Conflict anticipation and resolution.

Given the huge importance of family businesses for the European economy, and as nearly 1/3 of all enterprises in the EU are expected to face succession or transfer of ownership until 2020, there is clearly a need to provide family businesses and business support organisations with more effective and targeted support to better manage the issues of business transfer and succession, especially since it has proven to be an unmanageable obstacle for many businesses. The SUCCESS…ion project aims to develop a training mechanism providing effective advice and support, directly involving family SMEs owners, their advisors, and family members to prepare, plan, and successfully execute a successful business transfer.

The Success…ion project started in late 2015 and will end in October 2017.

The partnership is made up of:

- Yambol Chamber of Commerce and Industry, Bulgaria
- Business Information and Consulting Centre Sandanski Association, Bulgaria
- South-west University Neofit Rilski, Bulgaria
- Militos Consulting S.A., Greece
- North Tree ltd., Greece
- Knowl Social Enterprise for Education and Lifelong Learning, Greece
- R&DO Limited - Cyprus
- Fundación General Universidad de Granada Empresa, Spain
- Universität Trier, Germany

About this Companion

The business advisors' companion for family business succession and transfers is aligned to the main objectives of the project, i.e. to provide advisors with certain consulting and guidance tools, that go beyond the technical (business-based) implications, focusing more into the diverse inner dynamics (family-based, i.e. emotional, ethical, psychological) that are typical of the problems faced by family businesses when it comes to planning and executing transfers.

An initial research project was carried out by the consortium, and led to the identification of several areas that require attention within the scope of business consultants that greatly impact the quality of business succession. These areas that need improvement have been incorporated into the project:

- An absence of family awareness about the importance of succession planning and possible succession risks.
- The lack of trust from the family business to family outsiders.
- Business consults who are not knowledgeable about the specific support tools, trainings courses, or initiatives for family business succession planning.
- A lack of specific training available to these family business consultants.

This information gathered has served as a basis for the educational material, which has been founded on following:

- The expertise of the consortium partners in consulting, coaching, and mentoring in the field of entrepreneurship and family entrepreneurship.
- The identified needs of business advisors in the field of family business transfers based on the initial study realised by the consortium.
- The meeting point between business consultants' needs and family business members'/owners' needs as documented in the research phase of the project.
- The dynamics between business-based, technical aspects in business transfers, and family-based aspects, approached as complementary and interrelated rather than separated, and stand-alone.

Some of the subjects discussed in this companion deal with the following indicative aspects:

- The identification of family business owner's needs and goals.
- Choosing between intra- and extra-family successor(s).
- The identification and management of strengths, weaknesses, opportunities, and threats involved in succession planning.
- How to assign responsibility and authority.
- How to know when the 'best solution' has been achieved.
- Soft skills required to be a successful business consultant.

This project has been funded with support from the European Commission.
This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Table of Contents

Modules overview:

Module 1: What is family business all about?

This introductory module aims at intriguing business consultants to get into the family business mind-set; to understand the challenge, the significance, and particularities of consulting a family business; and to develop a deeper understanding of the reasons why succession is one of the toughest and most critical challenges family businesses face.

Module 2: Paving the way for transition

This module aims to enable end users (business consultants) to execute a successful initial consultation with the owner(s)/1st generation and the rest of the family members before proceeding with transition planning with the aim of preparing the ground for the specific goals, visions, and mission of the family business, and the personalities of the family members involved.

Module 3: Planning for intra-family succession

This is the core module enabling business advisors to support the succession process from both a business and a family perspective, addressing more technical issues, alongside potential psychological effects and intra-family dynamics emerging in this respect.

Module 4: Supporting the new business era

This module aims at training business consultants on supporting new leaders and managers (the new generation) to take over and effectively drive change to ensure successful business transfers. Business consultants will be trained in facilitating a good transition management following a smooth, gradual, well-controlled business transition in phases according to the succession plan while addressing emerging challenges on the way.

This project has been funded with support from the European Commission.
This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Module 1:

What is family business all about?

This introductory module aims at intriguing business consultants to get into the family business mind-set; to understand the challenge, the significance, and particularities of consulting a family business; and to develop a deeper understanding of the reasons why succession is one of the toughest and most critical challenges family businesses face.

This project has been funded with support from the European Commission.
This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Unit 1: Three models to understand family businesses: Families running businesses: dynamics and rules

After this unit, you should be able to:

- Comprehend what the term "family business" connotes and encompasses
- Understand what falls within this definition
- Delimit what its specific characteristics, dynamics, and rules are.

Three models to understand family businesses:

These three models will support business consultants when trying to capture the specific characteristics, dynamics, and rules of the family business regarding, for example, objectives, governance, performance, or entry/exit rules.

The 4-L framework of family business leadership.

The 4L framework comprises: Learning business, Learning the family business, Learning how to lead the family business, and, finally, Learning to let go of the business.

A brief description:

The 4-L framework for learning family business leadership is a practical model based on empirical research about the learning experiences of second or later generation family business owners who attained the CEO role in the family firm. The strength of this framework is that it takes account of:

- The special characteristics of firms run primarily by blood-related members of a single family;
- The paradoxes family firm leaders have to manage in combining two conventionally unrelated systems: business and family.

The framework is comprised of four discrete, sequential leadership learning phases found in successful family firms, together with the priorities of each learning phase, specific paradoxes created in each learning phase, and the pathways found to have been followed in successful cases to manage the paradoxes. Two of the phases are about apprenticeship or learning to lead a family firm. Two are about stewardship or how leaders continue to learn on the job and plan for succession.

The model visually:

The first two phases, known as the apprenticeship stage, involve individuals working 'in the business'. During the final two phases, or stewardship stage, individuals work 'on the business'. Each phase has a set of priorities, paradoxes and pathways

The model consists of 4 stages. These are L1 learning business; L2 learning our family business; L3 learning to lead our business; and L4 learning to let go of our business. The first two phases, known as the apprenticeship stage, involve individuals working 'in the business'. During the final two phases, or stewardship stage, individuals work 'on the business'. Each phase has a set of priorities, paradoxes, and pathways

Learning Business (L1):

In Learning Business (L1), the aspiring business leader discovers both practical and theoretical skills required for leadership, but where best to do so is a topic of universal debate. In the first phase of the cycle, learning sourced outside the family business can prove advantageous. The skills and knowledge acquired outside could later be transposed to the family business. The caveat, of course, is that once outside, the individual may not desire a return to the family firm. In this phase, it is useful to draw on protocol laid down in a family business constitution. The constitution may include an employment policy outlying the entry requirements for aspiring family business members, e.g. minimum age, industry relevant training and experience.

Learning Our Business (L2):

While concentration is focused on preparing the successor for eventual leadership, it must be noted that not everyone will be "the leader". During the phase, "Learning Our Business" (L2), preparing the successor may run concurrently with planning the incorporation of other family members in the business – possibly by appointment to leadership roles in a non-operational capacity. The rights, roles and obligations of family business members, family shareholders, owners, board of directors, and/or family council should be addressed and recorded in the family business constitution. Tensions may arise if an individual is singled out and groomed for succession.

Learning to Lead Our Business (L3):

Acquiring business knowledge and knowing how best to implement it are two different things. However, the gap between the two is bridged by what is called "a special perspicacity", which is the insight upon which the third phase "Learning to Lead Our Business" (L3) is based. The incumbent leader should identify the triggers for family related conflict within the business. Astute family leaders see the importance of

drawing up an agreed policy that secures guidelines for non-family, external, and family involvement in the running/ownership of the business and the sale of family owned shares.

Learning to Let Go Our Business (L4):

Transitioning to the final phase "Learning to Let Go Our Business" (L4) requires a degree of foresight and preparation. Adequate planning is a prerequisite for a smooth transition, as is the willingness of the incumbents to lead their own departure, rather than simply to acquiesce to it. In the 4Ls framework, there are three main guidelines to follow when stepping out of a leadership role: 1. Develop a defined timeline for retirement; 2. Create management development systems; and, most importantly, 3. Stick to the plan.

References

1. Barrett, M. (2014). The 4-L framework of family business leadership. In H. Hasan (Eds.), Being Practical with Theory: A Window into Business Research (pp. 72-79). Australia: Wollongong.

2. Clinton, E. (2014). Succession planning: Family planning. Business and Finance. Retrieved from: goo.gl/bcGBf1

3. Barrett, M. (2014). Theories to define and understand family firms. In H. Hasan (Eds.), Being Practical with Theory: A Window into Business Research (pp. 168-170). Australia: Wollongong.

The Three-Circle Model of the Family Business System

Developed at Harvard Business School by Renato Tagiuri and John Davis

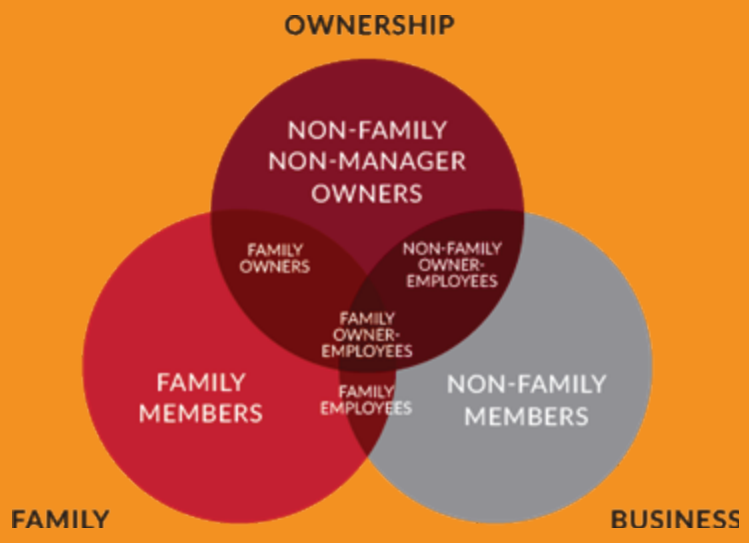
A brief description:

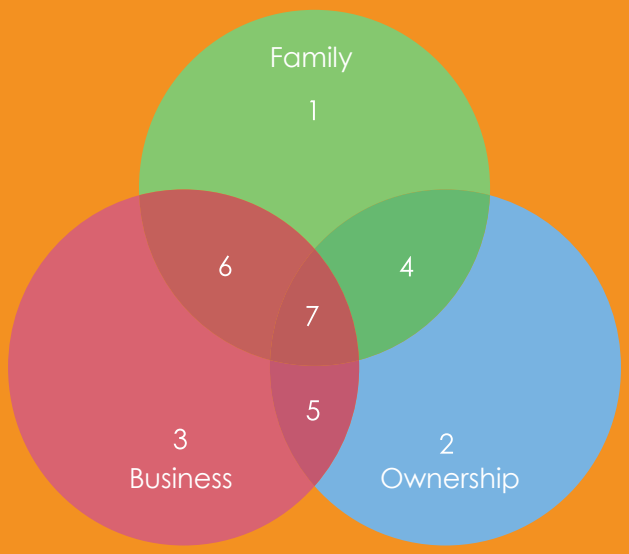
This framework clarifies, in simple graphic terms, the three interdependent and overlapping groups that comprise the family business system: family, business, and ownership. As a result of this overlap, there are seven interest groups present, each with its own legitimate perspectives, goals, and dynamics. The long-term success of family business systems depends on the functioning and mutual support of each of these groups. The interdependence of the three entities becomes more evident when the people within each circle are identified. For example, at the intersection of the three circles you find people who are at the same time members of the family, company employees, and company shareholders. At the intersection of family-company, you find people who are family members and employees of the company at the same time, but do not own shares of the company.
The advantage of placing each person within the circles is to better understand their behaviour, which is often linked to the advantages and disadvantages of their position.

The model visually:

A practical example:

This model helps to break down the complex interactions within a family business and makes it easier to understand what is actually happening – and why. It is a useful tool for understanding the cause of interpersonal conflicts, role dilemmas, priorities and boundaries in family firms.





Zone 1 represents family members not involved in the family business.

Zone 2 represents non-family business owners

Zone 3 represents non-family employees

Zone 4 represents family owners not working in the business

Zone 5 represents non-family owners working in the business

Zone 6 represents family members working in the business, but with no ownership

Zone 7 represents family members who own the business and work in the business

References:

1. Tagiuri, R., & Davis, J. (1996). Bivalent attributes of the family firm. Family Business Review, 9(2). Retrieved from goo.gl/p0j7qu

2. Kras, H. (August 14th, 2014). Family Business 3 Circle Model [video file]. Retrieved from https://vimeo.com/103408525

3. Laurel Hubber Consulting. (n.d.). The 3 Circle Model in Family Business: Part 1 – Introduction to a Governance Framework. Family Enterprise XChange. Retrieved from goo.gl/w7weZQ

4. Jurinski, J. J., & Zwick, G. A. (2002). Transferring Interests in the Closely Held Family Business. USA: Amer Law Inst.

Family Business Genogram

A brief description:

A good place to gain understanding about the many influences that form the culture in a family business and how these interact is to look at the family from a historical, multi-generational perspective. A genogram is a graphic chart that shows both basic and advanced aspects of the relationships between family members, both within the family, and within the organizational chart for the firm. It can be a powerful tool for the family business advisors for gaining new understanding of the relationship of the family to the firm as well as troubled relationships within the family. A well-graphed genogram can become a roadmap to change that can lead to improved communication, organization, and governance. Genograms are typically used in the field of social work and family therapy, but have been adapted as a tool in other fields including genealogy, medicine, and even family business research and consulting.

The model visually:

Creating a family business genogram

1. Collect data on family composition.

A. Draw three generations of family members (names, age, education, birth order and positions).
B. Add symbols for life events (adoption, death, divorce and illness).

2. Complete family business timeline with critical business events.

3. Discuss and draw family relationships using symbols.

A. How do family members relate with their nuclear family (parents and children)?

B. How close are the intragenerational relationships (siblings)?

C. How does the family relate across generations?

A practical example

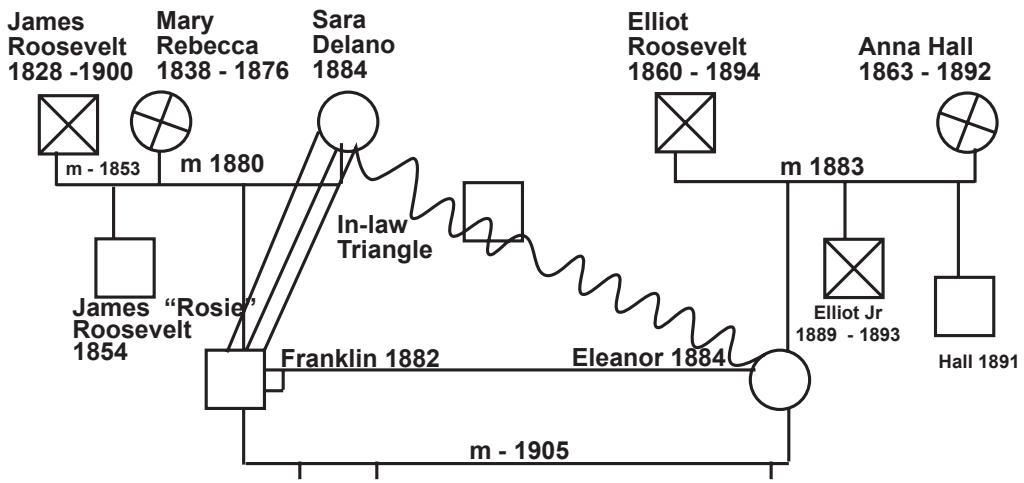
The genogram is a tool that enables a family and their advisers to facilitate discussion about the family's biological and emotional past. Completing and discussing their genogram helps a family to clarify, interpret, and create meaning about their behaviours and attitudes across generations. A well-crafted genogram exercise serves the business family, helping them to address three questions: 1. How does our prior experience shape our collective behaviour and interactions? 2. What can we do to make our current relationships (both positive and conflicted) more meaningful? 3.

What values and behaviours will help the next generation to construct more positive future interpersonal relationships?.....

…For example, some families strive to avoid conflict by never discussing certain business topics, like salaries, on the basis that not addressing this issue will prevent bad feelings and smooth family relationships. Other rigid patterns that develop in the business family can be:

- Sibling or branch rivalry;
- Gender stereotypes (with males preferred for both ownership and leadership roles);
- High parental expectations (with oldest sons being assumed as the next leader);
- Cut-off relationships where family can no longer bear on-going conflicts; and
- Enmeshed relationships where family members are unable to develop a sense of autonomy.

The genogram can help to address these challenges by focusing the family's energy in a constructive way and finally address the 'undiscussables.' Instead of allowing a general conversation about a lack of communication to continue, an adviser can change this into a focused exploration about the origins of aspects of the family scripts or myths. This way the family can come to appreciate those aspects of their current experiences and beliefs that support old behaviours.

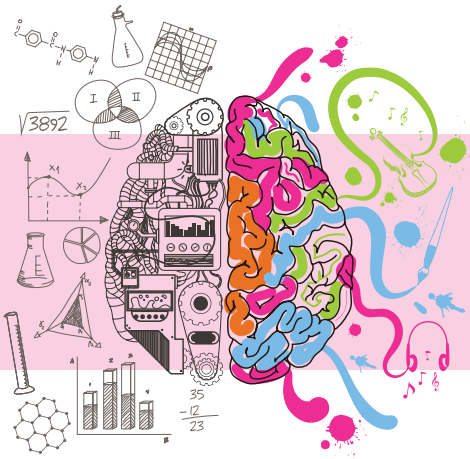


References:

1. McGoldrick, M., Gerson, R., & Shellenberger, S. (1999). Genograms: Asessment and Intervention (2nd edition). New York: W.W. Norton

2. Kets de Vries, M. F. R., Carlock, R. S., & Florent-Treacy, E. (2007). Family Business on the Couch: A Psychological Perspective. West Sussex: John Wiley & Sons Ltd.

Train your brain



1. Family and Business Related Goals and Performances

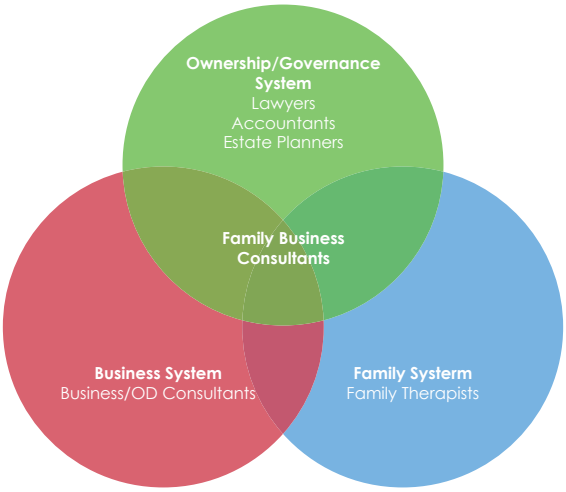
Describe the different types of goals and the performance of a family business with low financial benefit but high emotional capital of members.

2. Family Business needs now and in the future

What could be the needs of information and consultation of family businesses in the different stages of their lives?

3. The place of the family business consultants

Using the "The Three-Circle Model of the Family Business System", can you describe where the place of the family business consultants in the circles is?
Davidow and Narva (1990) defined a family business consultant as one who "separates himself or herself from an original profession as a clinician or a traditional business adviser and applies the expertise of that professional discipline to family definition is supported by Hilburt family business consultants and other consultants is that "family business consultants work at the boundaries where there are overlaps between these systems"



4. Family Business Consultant Personal Characteristics Exercise

From the following list, please choose the five that you believe are most important in being an effective family business consultant:

- Systems thinking
- Ability to work with systems as well as individuals in systems
- Ability to stay in touch with all parts of the system
- Work in both emotional/psychological and business planning modes
- High tolerance for conflict and chaos
- A strategic mind
- Sense of fair play
- Committed to his/her own personal development
- Self-knowledge and self-management
- Listening
- Capacity for empathy
- Empathy for the business
- Empathy and objectivity
- Hope and optimism
- Belief that people will choose health over sickness
- Appreciation for client's courage in engaging with a consultant
- Compassion and humility
- Values/ethics
- Family values
- Ability to adjust
- Imagination
- Global vision
- Rapport
- Intellect
- Ability to challenge what clients are saying
- Transparency, honestly, and forthrightness
- Toughness and compassion
- Intuitive sense of what is going on in system
- Experience
- Knowing how to help in anxious systems
- Owning solutions
- Ability to gather data and generate good theory
- Trustworthiness
- Consultant is "one of us"
- Ability to understand the business from the leader's perspective, and translate that to/for others
- Risk taking
- Enjoy people and business
- Being able to create a timely solution that can be implemented

This project has been funded with support from the European Commission.
This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Consulting family businesses: differentiation

After this unit, you should be able to:

- Comprehend what the differences in business consulting between family and non-family businesses are.
- Visualise how the challenges (e.g. related to intra-family dynamics) family business consultants face differ from those that other types of consultants have.
- Understand how consulting should be adapted in this respect.

Unit 2:

Success factors for working with family businesses:

These ten critical success factors have been found in literary sources, and are directed towards helping consultants working with family businesses. Specific examples that evidence their importance are included.

The critical success factors:

Consultants must focus especially on researching the visions of the future businesses to help owners and family members to recognize opportunities, etc.

1. Consultants must focus especially on researching the condition and the process of the succession of the family business to advise the owners of these businesses how to start or continue their actions.

Practical example:

> In case that: 1) there are no heirs, 2) there is lack motivation for business development by family members, and 3) those who do not have the specific skills for the continuation of the business; the consultant could recommend: 1) the business to be sold, 2) to liquidate, 3) to surrender control outside the family (managers outside of the family), 4) to merge with another company.
>
> When there are more heirs with leadership qualities, the question is who will manage the company. In this case, the heir should be manifested as a leader, independently from the previous owner.

2. The consultant should approach with genuine sympathy and concern for the needs of the customer (members of the family business) to justify the confidence and expectations for successful succession.

Practical example:

> The consultant should attract the customer as an active partner in all business succession planning by building trust between them. This will reveal and clarify the specificity of the process.
> The lack of previous experience in advising family businesses associated with the hard and the soft skills of the consultant can negatively affect the solution of specific problems.

3. The consultant should try to create a partnership and flexibility in relations between the two sides and learn more about the owners and the company to meet the needs of the heirs.

Practical example:

The consultant should propose a clear and flexible arrangement for their collaboration and strive to create a good working relationship. In this case they will have to sign a contract for consulting services with the object to be referred the expected results.

4. The consultant must know well the specificities of the three key subsystems in the family business: business - property - family, as a condition for his/her effective work with the heirs of the family business.

Practical example:

In the case that the consultant does not know the specific problems of the family business, he/she could cause more harm than good to the business. The consultant should do interviews with key figures from family and firm and may explore the company reports, financial documents, and archives. He/she must inform the client about the conclusions and options / approaches to solve problems.

5. The consultant should demonstrate knowledge and skills in multidisciplinary fields to bring to fruition the succession of the family business to his/her customers.

Practical example:

If the consultant does not have multidisciplinary skills it is likely to introduce the wrong approach for transfer and succession of the business, for example, he/she may be a good economist, but with no legal training and knowledge. This means that he/she will deal with the economic aspects of the succession, such as the functioning of the company and relations with the external environment, but in terms of legal issues related to the management and ownership can make the wrong move.
In case that the company is headed to a consultant who does not know the specificity of the family business and is not sufficiently trained in issues of inheritance may lead to an unsuccessful outcome of the process of succession.

6. The consultant must be able to manage communication in the process of transfer and inheritance of family business.

Practical example:

Communication skills are a required quality that the consultant should have. This is because the planning process necessarily involves continuous dialogue / discussion on problem solving. The consultant is the moderator and advisor in the process of discussing specific problems.

7. The consultant must take action in relation to succession planning and to ensure a smooth intake of family business by the heirs. The consultant should be prepared to discuss with the owner and family members negative aspects, problems, and potential losses from subsequent decisions to transfer and succession.

Practical example:

In the case that there is no plan for succession the consultant should include issues related to ownership:

- Distribution of property - merger, consolidation, separation, division
- Purchase of shares to outsiders - sale of all or part of the shares; an external co-owner / circle of persons who hold shares of the company.
- Transfer or sale of shares between the heirs
- Step in the liquidation of the company to be a measure which is considered good.

The reasons for the liquidation of the company can be:

- The company is insolvent
- The company could not be stabilized
- Unsuccessful recovery plan
- Mismatch between supply and desired product on the market
- Impact of negative external factors - economic crisis, etc.
- Moving the business in another country
- Remain unresolved property issues
- Liquidation out issues regarding creditors in respect of debtors staff
- To make a strategy for the liquidation of the company
- The company's strategy will remain the same there - maintaining,changing, or new adaptation strategy
- The decision of the liquidation of the enterprise whether it is appropriate for staff who remain without work / shortening - moral and material responsibility to redundant workers
- When changing company control, the policies may change and strategies that reflect the state of the company and the direction of the business and

to affect human resources - can impose cuts / may need replacing workers with others owning another type of skills
– Distribution of ownership of the company among more heirs and appropr

8. The consultant should identify the training needs of the appropriate heir among possible candidates for the succession of the family business in order to develop their competencies for a successful transfer of management control and ownership.

Practical example:

The consultant determines a group of potential successors (family members, other employees of the company or outsiders for a managerial position) and establishes their training needs for the position. The preparation of the potential successors can be accomplished by: formal education and training, apprenticeship, career development experience outside the company, interaction with the manager.

9. The consultant should provide an opportunity to establish clear rules and criteria for the selection of a potential successor to the family business in order to legitimately complete the process of transfer and succession of the family business.

Practical example:

The selection of a successor is made based on specified rules and selection criteria. In this connection it is necessary to select and appoint a selection committee to the appropriate successor. An extremely important part of this stage of the succession of the family business is the existence of a correspondence between the heir and the characteristics of the company.

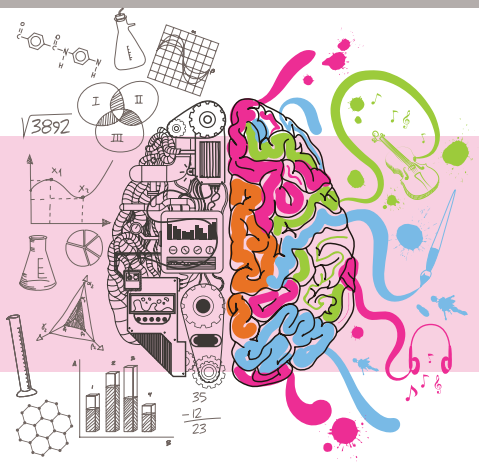
10. The consultant should participate in the process of transferring the management control and ownership to help the owners of the family business with advice.

Practical example:

The transfer of management control and ownership is an important point to inherit the family business. This is a transitional period when the previous manager leaves and his/her successor is received. The consultant should be able to draw continuity with the strategy of the family business and ownership structure after inheritance and transfer.

This project has been funded with support from the European Commission.
This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Train your brain



Exercising the Family´s Collective Best Judgment

A brief explanation:

The ultimate goal of family business consulting is to develop a process by which the family exercises its collective best judgment about the future of the business. Think of a list of basic needs that must be met by the family businesses before they can get beyond their problems, ask themselves the right questions, and refine their collective best judgment.

1. Knowledge of current legislation and existing practices and traditions in succession of the business. Normative documents related to inheritance of the family business

The purpose of the exercise is to determine whether the consultant is sufficiently familiar with the regulations and legal base, practices and traditions associated with succession and transfer of ownership and management of the family business.

2. Sources of information / Recruitment information to disclose the condition of the family business

The consultant should be aware of what sources should gain, compare, and correlate information in terms of its staffing composition, assets, markets, competitors. He/she should make a "Strengths, Weaknesses, Opportunities, and Threats Analysis" (henceforth referred to as a SWOT analysis), and also a strategic analysis

3. Succession planning and transfer of the family business

The consultant should acquire skills for planning the process of succession.

4. A model for Business Development

The aim of the exercise is for the consultant to identify and express the initial information to develop a model for business development.

5. Establishing criteria and rules for selection of candidates for the succession of business

The consultant should acquire knowledge and skills to determine the criteria for establishing the rules for selecting a successor to the business and to provide any recommendations according to the situation of the case.

6. Preparation, formation of leadership qualities and development of the successor of the business

The aim of the exercise is for the consultant to identify training needs of the heir, to propose suitable methods for training and forms of education - formal training, apprenticeship, experience outside the company, workshops, internet courses, etc.

7. Developing a plan corresponding to the real situation

The aim of the exercise is to develop a plan to overcome a variety of problems such as conflict situations in the case of more successors and their diversity of skills and desires for leadership; human resource management, market share of the company, etc.

This project has been funded with support from the European Commission.
This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Transferring a family business: the turning point of succession

After this unit, you should be able to:

- Identify what the different options for giving up control of a family business are.
- Understand why succession in particular (e.g. the transition of power and responsibility from one generation to the next) is a challenging time and a turning point in any family business.

Unit 3:

Different possible options that the business owner(s) has:

This activity presents a way to explore and understand the different options that the owner has for giving up control of his/her family business. Descriptions are given for the business owners' main options and the role of the consult would play in the specific situation that the owner chooses.

Introduction:

A professional family business consultant can be a tremendous asset when confronting planning succession issues. The consultant is a neutral party who can stabilize the emotional forces within the family and bring the expertise of working with numerous families across many industries. Most families believe theirs is the only company facing these difficult issues, and a family business consultant brings a refreshing perspective.
A founder of a family business looking at transition planning has few options when it comes to ultimately giving up control. These generally fall into the following four categories:

1. Selling the working business to a Third Party

For some small business owners, selling the working business to an independent party makes more sense than choosing a successor from within the family. This might be due to the fact that there are no successors or there are no willing successors to continue the business itself. Often, smaller businesses are sold to "strategic buyers" who integrate it with their business. However, for some business owners, it may be the best way to meet their expectations for their retirement income.

The role of the consultant in this option:

Getting a business ready for sale requires a different kind of preparation than when it is passed on to a relative. Early in the selling process, professional assistance might be needed. The consultants might help the owner to prepare the financials documents, to prepare the owner for the negotiation process, and to help him/her present the company in the best possible way. This is the process of "cleaning up" the business to make it look attractive to potential buyers. From the non-technical part of the succession, the consultants might help retiring business owners to use to prepare themselves for a life without a company to run. Together they could come up with a plan for how they will spend their time and for ways that they can redirect their energy.

1.1 Cease operations and liquidate the assets of the business, selling them to a Third Party- Liquidation is not traditionally considered "succession planning" because the business is not being passed on as an operating concern. However, in some circumstances, liquidation is the best way for the owner to meet his/her financial needs. This might be due to the fact that there are no successors or there are no willing successors to continue the business itself or the "value", "the health check" of the business proved that there will be no body (neither internal, nor external) willing to take over the control or to buy it.

The role of the consultant in this option:

Here the work of the business advisor could start from an early stage- checking the health of the business, its value and its attractiveness. After it is set that the best possible solution will be to cease the business operations and liquidate its assets, the consultants might help with preparing market comparisons for the assets, identifying negotiable prices, and finding appropriate buyers.

2. Keeping it in the family

The vision of some families will be to retain the leadership of the business within the family- both the ownership and the management. They see it as a way to keep the family involved and in control whilst also providing career opportunities that couldn't be accessed elsewhere.

The role of the consultant in this option:

The first requirement for this approach would be having someone in the family who has experience in the business, is well regarded, and has the capability and willingness to take on this role. The challenge becomes more complex if there are several family members progressing in the business. Managing the expectations and the emotions of the wider family can be a challenge.

Ultimately the role of the business advisors could be his/her help with the decision that should be based on ability and merit not based on family position, expectation, or any other emotion-led criteria. The advisors could provoke timely discussions with the board and the family about how the next leader will be selected, and who and what should be involved in that process. The advisor will help by having an objective and transparent process in place, based on merit, which can help to make these decisions fairer and can lead to more acceptance of the outcome.

3. Retain family ownership, but bring in outside management to operate the business

The ownership of the business is transferred to legal successor/s but there is an outsider that is taking care of the management of the business itself.

The role of the consultant in this option:

In this case the owner is transferring the ownership to the family members but they are not willing or able to run the family business successfully then the best option may be to appoint a non-family manager/ CEO. This decision should be reached in a discussion with the family. It's often at the point where they can see that professionalising the business, and strengthening it with outside expertise, is important for future growth and success. The family business advisor could help with bringing non-family leaders in, or promoting them through the ranks.

Having the right selection process in place is crucial for success. It is important to select someone, not only with suitable experience, skills and track record, but who also understands the culture and values of the family and what the business stands for. A formal and objective recruitment process is advisable, which both the family and the business could be part of.

4. Retain family ownership but transfer the management of the business to a family member/s

Drafting up such a succession plan can allow the parent owner to remain at the company with a certain level of control while the successor gets enough experience and expertise to receive the ownership as well.

The role of the consultant in this option:

Business advisors could help with training and developing future owners, whether or not they work inside the business and this is as important as training the next generation of managers and leaders. Knowledgeable, sensitive owners provide management with the support they need to move a business forward, to balance the needs of the business and the family, and find constructive ways to resolve conflicts and differences of opinion. They are aware of the family's legacy and assume that the business exemplifies the family's values.

The greater the level of preparation and work that could be supported by business advisors for the existing/future owner and the existing/future management team in devoting time and resources to the development of the future ownership and management team, the greater likelihood of successful transition at both an ownership and management level.

Five important questions to ask:

These 5 main questions should be presented to the owners as a way for them to reflect about transition, and what resources they may need to acquire to answer these questions. The questions are presented in a way that intends to support the owners and family members when addressing the subject "thinking about transition".

1. DOES THE OWNER HAVE A TRANSITION PLAN AND, IF SO, DOES HIS/HER FAMILY KNOW ABOUT IT?

The resources owners may need to acquire to answer this question:

Succession planning sits at the intersection of family considerations, which typically involve emotions and feelings, and business considerations, which are typically driven by merit and economics. This juxtaposition of sentimental and financial concerns can make succession an especially complex topic. In some cases, families -despite having a common base to build on- have difficulties with open discussion within the family members. It's very hard to disconnect emotions and to be fact-based and objective in a family setting. So, having some external impartial support can be quite helpful. Business advisors of the succession process should meet with family members and discuss their individual aspirations for involvement in the business. For example, does an individual want to work for the business or lead the business, or, alternatively, focus on the family's philanthropic work? Or does an individual want to chart his/her own course outside of the business? The family's collective aspirations can emerge from the effort to establish a philosophy and values. Does the family want its business to be the largest company in the industry? Is maintaining the business as a family-owned-and-operated company of paramount importance, or does the family want to relinquish operational responsibility in the coming years? Understanding these aspirations helps in managing expectations and defining priorities in the succession process.

2. WHAT'S SPECIAL ABOUT SUCCESSION PLANNING IN A FAMILY BUSINESS?

The resources owners may need to acquire to answer this question:
In some family businesses there's an expectation that the next company leader will be a family member. This may work for many companies and families— especially if a well-qualified family member has been groomed for the role and can bring a broad range of relevant experience. Family succession may be a stabilizing force for the family, the company, and its employees. And it may motivate other family members to pursue careers within the company. But not all families have someone who is ready to step into a CEO role. Plus, restricting succession to family excludes candidates who may bring vital skills to the role. Other highly qualified executives may choose to leave the company if their advancement is capped. The bottom line: family-only succession may not lead to the best successor CEO. There are a number of other choices you can consider.

3. WHAT ARE THE SUCCESS FACTORS THAT IMPROVE THE CHANCES OF SUCCEEDING WITH SUCCESSION?

The resources owners may need to acquire to answer this question:

Having a succession planning

A succession plan is a multidisciplinary process providing a comprehensive and strategic approach to guiding the transition of the family business management succession. It is a roadmap for each family business until the succession process. It is a dynamic document that can change over the time. The succession planning has to be used as a guide to manage the issues of transition and to allow the incumbent leader to anticipate and manage changes. It is unique to each leader because one size does not fit all. This means that a succession planning is very personal regarding the needs and the requirements of each family business but fundamental for all.

– Start planning early the succession

Succession preparation should start as soon as possible. Frequently, the first real thoughts about succession are prompted by the death or ill health of the chairman or managing director. This leads to serious damage to the business because the succession process was not carefully planned over time, and the family ends up in the precipitation and has to make thoughtless choices. So, it is necessary for the leaders to anticipate early the potential scenarios for how the family business will evolve. Hence, we understand the importance of succession planning.

– Preserving the family's values and vision

The family businesses that prosper and succeed across generations are those that possess a core vision and philosophy and set of values linked to a sense of com-

munity and purpose. Preserving the family business spirit should be an advantage.

– Fostering the family harmony

Fostering family harmony is essential to succeed in succession in order to pursue a sustainable and healthy family business. Succession planning is key to family business harmony.

– Ensuring agreement and motivation from the successor to continue the business

– Ensuring that the successor wants to lead the family business with real motivation and by choice.

– Developing the successor's capabilities widely: Establishing a training process

Setting-up a training process will develop the successor's capabilities in order to better answer to his/her new role. A family business should invest in developing the successor's competencies and grooming him/her for the leadership role. The preparation to the role should happen in stages starting at a young age if it is possible. The training process strongly recommends that potential successors gain experience outside the family business in order to develop their perspective. Once the successor is inside the company, a training process phase could be a transmission of knowledge and a way to work in pair with the incumbent and the successor.

– Creating a smooth transition of power

The successors can start with a phase of following senior executives and owners to learn about their routines, priorities, and ways of operating. The next stage should be a role of chief operating officer by management of the operations but still deferring to the incumbent leaders on strategic decisions. The last step would be to lead or own the family business.

– Asking the leader to leave but not to disappear, becoming councillor

Keeping the incumbent close to the successor, remaining connected to the family business and in the same time to let him/her go in order to let the role to the successor. Departing leaders should stay available to guide the new leader if he/she needs advices. Asking departing leaders to leave but not disappear while the successor assumes control and builds credibility.

– Developing a cross-generational teamwork

The implementation of inter-generational teamwork is essential to identify possible problems, so they can be discussed and resolved. Usually the problems reappear later on, more complex and more difficult to resolve. It is the reason for why the success or failure of succession frequently reposes on the quality of relations between the incumbent and the next generation.

4. HAS THE CURRENT LEADER COMMITTED TO A FIXED RETIREMENT DATE AND IF HE/SHE IS RELUCTANT TO GIVE UP THE OWNERSHIP AND MANAGERIAL CONTROL FULLY?

The resources owners may need to acquire to answer this question:

Most family business owners bring something distinctive to a family business. Holding onto this distinctiveness in a transition is essential but requires a delicate balance when the owner would like to give up the business.

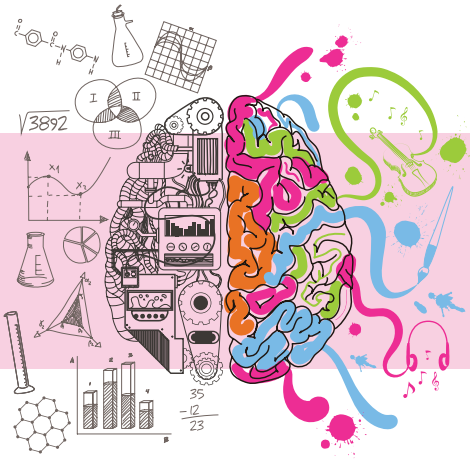
The family business consultants should try to keep a balance and overcome their reluctance to let go, so that they could elaborate together a "glide path" plan that sets out how they will turn over control in phases and transition into other activities while the successor assumes control and builds credibility. Family businesses should also consider the need to adjust aspects of the company's governance model when the departing leader hands over the reins. Although such adjustments can be made outside the context of succession, they often become particularly relevant after transitions to the second or third generation. A strong leader's hands-on governance approach is often no longer sustainable for the next generation, creating the need to divide and formalize roles and institutionalize many business processes.

5. DO THE OWNER AND THE FAMILY MEMBERS HAVE A CLEAR AND OBJECTIVE VISION OF HOW THE SELECTION PROCESS OF THE SUCCESSOR/SUCCESSORS WILL BE?

The resources owners may need to acquire to answer this question:

A company needs to define a selection process to implement its succession model—whether selecting a successor exclusively from the family or considering nonfamily executives as well. The external business advisor could help in defining the methodology for this process. The selection process should be based on articulated criteria and delineate clear roles among family governance bodies and business leaders, addressing who will lead the process, propose candidates, and make decisions. An early start is especially important if several family members are under consideration or the potential exists to divide the business to accommodate leadership aspirations. To obtain an objective perspective on which members of the younger generation have the greatest leadership potential, families could benefit from the support of external advisors in evaluating talent and running the selection process.

Train your brain



1. Advisors' perspective on family business owners

What are the main attractions and challenges on working with Family Business owners?

Advisors greatest challenges are managing family businesses many non-technical, people based issues.

There is recognition that skills beyond professional qualifications are required to be an effective advisor to family businesses.

There is a high level of job satisfaction working with family businesses on complex issues over long time periods.

Advisors are frustrated with the challenge of being listened to and getting clients to act on their advice.

2. Preparing for advice

What can families do to prepare for the advice they are going to need in future? How can Business Advisors help Business family owners get ready to engage?

Advisors are usually only needed when a family business reaches the limits of their own resources, and these limits are most commonly hit when an older generation reaches retirement or when there is a family crisis.

Getting engagement from the family- whether proactively or reactively- is challenging but essential to business planning success.

Planning in advance and adopting an advisory process can improve the ability to take advice.

Advisors have adopted practices to improve preparedness; these include education, counselling and thought leadership.

3. Succession planning

What are the main problems that family businesses have putting in place succession plans? How can advisor help manage the succession process?

Separating ownership rights and responsibilities from management roles is critical to good succession outcomes.

Succession planning is a prime example of where holistic, rather than product specific, advice is needed.

Advisors bring two key skills to succession planning: setting objectives standards for management skills and acting as neutral observers for individual family members' strengths and weaknesses.

This project has been funded with support from the European Commission.
This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Food for thought

Websites, videos, and blogs links related to the topics:

http://www.continuityfbc.com/wp-content/uploads/2016/07/DeconstructingConflictSneakPeekJuly2016.pdf

This book will arm family business stakeholders and their advisors with the most cutting-edge thinking for achieving generational success in family enterprise.

https://player.vimeo.com/video/127932216

Advice from the founder and chairman of the Cambridge Institute for Family Enterprises for succession

https://player.vimeo.com/video/127833343

How to prepare the next generation to engage with the family business from the Cambridge Institute for Family Enterprises

https://player.vimeo.com/video/128141266

Importance of Next Generation Development from the Cambridge Institute for Family Enterprises

https://player.vimeo.com/video/127931391

Lessons for continuity from the Cambridge Institute for Family Enterprises

https://www.familybusinessmagazine.com/family-business-blog

Blog with a lot of useful information regarding doing family business

http://www.wsj.com/video/family-business-succession-tips/1C9B5391-2D3A-4B20-89E5-9928410D63E9.html

Family Business Succession Tips

http://www.lawdonut.co.uk/business/law/exit-strategies/exiting-a-family-business/passing-your-business-on-to-your-family-faqs

FAQs people ask about passing their business onto their family

http://www.bizfilings.com/toolkit/sbg/run-a-business/exiting/planning-for-business-succession.aspx

Toolkit for business succession

Extracts or quotations from reports, literature and other sources that add value:

Human Resources in Family Business by David Ransburg, Wendy Sage-Hayward and Amy Schuman

"It is clear that highly engaged teams deliver significantly better results, yet it is challenging to create an engaged company culture. Human Resources in the Family Business is an excellent step-by-step practical guide for any family business to take their team to a new level and achieve greater success." -Robert Pasin, Chief Wagon Officer, Radio Flyer Inc.

Family Business Succession. The Final Test of Greatness by C. Aronoff, S. McClure, J. Ward

'While our father was a great journalist and businessman, and a wonderful parent, his transition planning was inadequate. Fortunately for our family and business we used the principles we found in Family Business Succession: The Final Test of Greatness to help guide us as we developed and implemented our succession plan. As a result, we are a healthier and more prosperous family and family business than we ever dreamed possible.' - Betsy McCool, Chairman, Western Communications, Bend, OR

"Succession in a family business is one of the most agonizing experiences that any family business face(s) when they move from one generation to the next, so of course it's very important to think about succession," - Alfredo De Massis, director of the Family Business Center at the Lancaster University Management School

"If you fail to plan, you are planning to fail" - Benjamin Franklin

Important bibliography:

1. Fischetti, M. (1997). The Family Business Succession Handbook. Philadelphia: Family Business Publishing Company.
2. Aronoff, C. E, McClure, S. C, & Ward, J. L. (2003). Family Business Succession: The Final Test of Greatness. Marietta Ga: Business Owner Resources.
3. Keyt, A. (2015). Myths and Mortals: Family Business Leadership and Succession Planning. New Jersey: Wiley.

This project has been funded with support from the European Commission.
This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Module 2:

Paving the way for transition

This module aims to enable end users (business consultants) to execute a successful initial consultation with the owner(s)/1st generation and the rest of the family members before proceeding with transition planning with the aim of preparing the ground for the specific goals, visions, and mission of the family business, and the personalities of the family members involved.

This project has been funded with support from the European Commission.
This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Unit 1:

Checking out Business "health"

After this unit, you should be able to:

- Undertake a thorough SWOT analysis to identify and evaluate the strengths, weaknesses, potential threats, and opportunities a family business holds for a sounder succession strategy and planning.

Three tools for "business health" evaluation:

This collection of three specific techniques designed for business management will enable business consultants to be able to evaluate the "health" of a (family) business, in order to develop a sounder succession strategy and planning (strengths, weakness, potential threats, opportunities, etc.).

Net asset approach

A company is considered healthy, if it creates more value than it owes to creditors and customers.

A brief description:

One way to measure the health of a company is a valuation based on the balance sheet: A company is evaluated based on the book values in the company's balance sheet. The most obvious solution, adding up all recorded assets and subtracting all recorded liabilities, does not take into account that some assets' actual value can deviate from its originally recorded price that is given in the company's books. Hence, it is necessary to derive the assets' current market values. E.g. imagine a company purchased a piece of construction area outside the main industrial areas some years ago and this area now has been fully developed. The current fair market value will be higher than the purchasing price that is displayed in the books. Keep in mind that liabilities are usually being adjusted to their fair market value each year and don't need to be corrected.

After determining the current fair value of each asset in the company's books one can deduct the value of a firm as the difference between the fair market values of all assets and the fair market value of all liabilities. Given a positive overall result the firm is considered healthy as it is worth more than its outstanding debt.

"Health" indicators used:

- Purely asset-based valuation
- More inward looking but external factors can be incorporated when concluding on fair market values
- NOT including
  - Some intangible assets like reputation or the strength of employees
  - Future growth opportunities

A practical example:

The consultant who helps providing the fair market values of the firm's assets needs knowledge about:

Which assets are sensitive to value changes? This depends heavily on the legal environment the firm is operating in as each country has different ac-

counting laws and standards. Having at least a good overview of the local laws and standards is mandatory.

How can a fair value be derived? A mixture of experience and being up to date on current market shifts is necessary for the consultant to obtain fair values of a firm's assets. Knowledge about historic price rates of asset sales and having access to current prices of similar objects are an advantage. If he/she feels not able to derive a fair value, consulting further experts (e.g. discussing the worth of property with a real estate expert) is recommendable.

References:

1. Brealey, R. A., Myers, S. C., Allen, F., & Mohanty, P. (2012). Principles of corporate finance. New York: Tata McGraw-Hill Education.

2. Graham, B. (2005). Intelligent Investor: The Classic Text on Value Investing. Harper Collins. Retrieved from goo.gl/gK8qQ3

Discounted Cash Flow Analysis

A brief description:

The discounted cash flow analysis (DCF) is widely used to evaluate companies as it includes not only current price information but also the expected increases in value in the company's future.

Free cash flow is the amount of cash that is freely available to investors and creditors after accounting for all capital expenditures such as machinery or property, etc.

Free Cash Flow
=EBIT·(1-Tax Rate)+Depreciation+Amortization
-Change in Net Working Capital-Capital Expenditures

The free cash flows are forecasted for each upcoming year, discounted by the firm's cost of capital and summed up to derive the value of an imaginary unlevered firm. As it is not feasible to compute the free cash flows to infinity the usual approach includes a detailed forecast for up to 10 years. It is reasonable to assume that there is enough information available for concrete near future predictions. For events and developments in a more distant future this does not hold true anymore. Hence, all following firm years are covered by computing a terminal value, assuming that the firm will survive indefinitely at a stable growth rate which is lower than the firm's assumed cost of capital.

$$Value \quad {}_{t=1}^{t=N} \frac{Free\ Cash\ Flow_t}{1 \quad Cost\ of\ Capital\ ^t} \quad \frac{Free\ Cash\ Flow_{t+1}}{Cost\ of\ Capital \quad Expected\ Growth\ Rate}$$

After deducting liabilities from this interim result the discounted cash flow analysis of the firm is complete. Given a positive result the company is considered healthy and growing.

"Health" Indicators used:

- **Forward looking valuation**
- **More inward looking but external factors can be included, e.g. in growth rates**
- **Not affected by accounting practices and laws**

Keep in mind that the accuracy of the discounted cash flow analysis is dependent on the quality of the assumptions regarding the free cash flows, the terminal value and the discount rates involved! This valuation method requires the evaluated business to be of sufficient size. It is not applicable to very small businesses.

The model visually:

(see Excel spreadsheet "Template DCF Valuation.xlsx")

A practical example:

For implementing a decent DCF analysis the consulting expert needs to

Elaborate on all available internal information that he/she can gather from the family business owners, balance sheets and the firm's tax advisory to be able to determine appropriate values for the required variables. The same is true for external information like predictions of market and industry developments. He/she needs to talk to every person that is involved in the financial issues of the firm starting with the CEO to the accounting clerk.

Perform a sensitivity analysis to see to which variables the business is sensitive to. Growth rate and cost of equity/cost of debt are recommended as starting points. Calculating worst and best case scenarios will deepen the consultant's understanding of the firm as well.

References:

1. Damodaran, A. (2016). Damodaran on valuation: security analysis for investment and corporate finance (Vol. 324). New Jersey: John Wiley & Sons.

2. Berk, J. B., & DeMarzo, P. M. (2007). Corporate finance. Pearson Education.

Multiple Valuation

A brief description:

Implicitly assuming that one can derive conclusions by observing similar companies that operate in a similar market, a multiple valuation is based on knowledge about past transactions with such similar companies.

The first step of a successful multiple valuation is choosing a peer group consisting of companies that resemble as much as possible the company that is being evaluated in: industry, risk profile, and size. This peer group should contain at least two companies, although exceeding this number is recommended. A thorough knowledge about these companies' key figures is mandatory. As a second step the analyst has to choose appropriate base values for computing the multiple used to compare the peer group and the target firm. Commonly used base values are net sales, EBITDA, EBIT, cash flow, or annual net profit if SMEs are concerned. Then the analyst proceeds by computing the multiple based on observed transaction values:

$$\textit{Multiple} \quad \frac{\textit{Observed Firm Value}}{\textit{Net Sales EBITDA etc}}$$

The target firm's value is then assumed to be the (mathematical) product of the peer group's averaged multiple times the target firm's base value. Keep in mind: You need to deduct financial liabilities to derive the target firm's value when using a revenue or EBIT based multiple.

As this method of valuation is rather imprecise it should be used for a "quick and dirty" analysis only. It can stand either in situations in which a result has to be produced quickly or as a rough benchmark for further examinations like the net asset approach or the DCF analysis discussed above.

"Health" indicators used:

- **External approach**
- **Valuation is achieved by a relative measure**
- **NO future based calculations**

The model visually:

See Damodaran's extensive collection of multiples around the globe for further research:

Price and value to sales ratios by industry sector:

http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/psdata.html

Value to EBIT and EBITDA multiples by industry sector:

http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/vebitda.html

These can be used for direct valuation if there is no peer group available or as a benchmark for internally generated valuations.

A practical example:

> **An Observed Firm Value to Net Sales multiple of 1.8 is derived. That means that firms that are similar to the target firm are sold on average at a price that is 1.8 times their net sales. Hence, by multiplying the target firm's net sales with 1.8 will give you at least a good benchmark of the target firm's value.**
> **You can verify this result by computing other multiples for the same peer group and proceed in an analogous way.**

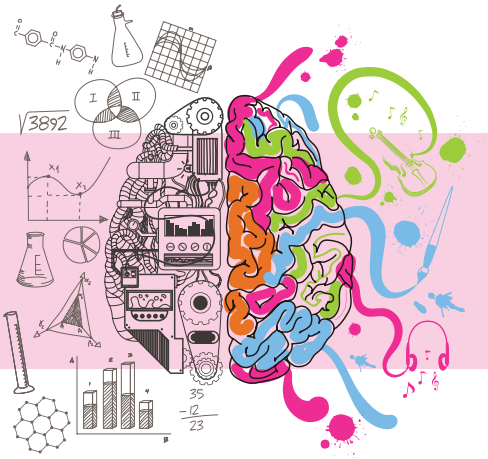
References:

1. Damodaran, A. (2016). Damodaran on valuation: security analysis for investment and corporate finance (Vol. 324). New Jersey: John Wiley & Sons.

2. Graham, J. R., & Harvey, C. R. (2001). The theory and practice of corporate finance: Evidence from the field. Journal of financial economics, 60(2), 187-243.

This project has been funded with support from the European Commission.
This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Train your brain



Apply the techniques below to a company of your choice. (Choosing a public company is recommended as their numbers are available on platforms like Yahoo!Finance or Google Finance. Feel free to use a current example of your own consulting activities if available.)

1. **Net Asset Approach:**

You have to find the balance sheet items that are sensitive to value changes over time. Think of reasons why these items' values could have changed. What extents of change seem reasonable?

2. **DCF analysis:**

Use the provided template and estimate all necessary numbers. You will find hints in the template as well.

3. **Valuation with multiples:**

Choose at least two companies for your peer group and two base values such as net sales or EBIT. Then perform the multiple valuation as described above.

This project has been funded with support from the European Commission.
This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Kick-starting the discussion and guiding owners through the planning process

After this unit, you should be able to:

- Understand how to help family business member talk to an outsider about intra-family dynamics and related issues affecting their business.

- Identify a blend of skills necessary for asking the right questions while ensuring your clients that you will handle sensitive issues in a confidential, wise, and ethical manner.

- Look at your set of skills and understand how to set the ground for a trust-based cooperation as well as to kick-start the discussion about this critical turning point.

Unit 2:

Soft skills you need:

These are five main soft skills that business consultants should acquire to be able to properly handle the sensitive issue of business succession in a confidential, wise, and ethical manner, fostering a trust-based cooperation with the family business members.

Planning skills:

A brief description:

Planning is a future-oriented decision-making process. Planning skills could be described as any skills that allow a person to look ahead and accomplish goals or avoid emotional, financial, physical, or social hardship. These skills are useful in the process of making and implementing decisions. Business consultants should be well prepared. Regarding the succession process they should be aware of the company's strong and weak sides. Business consultants should acquire planning skills to make different diagnosis, as well as making recommendations based on the diagnosis.

A practical example:

> Business consultants need to develop skills related to the following competency areas:
> - Analysing and interpreting data and situations in order to bring the succession of the family business to successful final stage.
> - Diagnosing problems and identifying relevant causal factors - the consultant should be very well informed about the specific problems of the family business.
> - Predicting, forecasting, and also the monitoring of the legitimacy of the whole process of transfer and succession of the family business.
> - Goal setting and identifying possible courses of action regarding the succession process.
> - Evaluating and comparing possible courses of action on how to make the succession process successful in practice.
> - Communicating with the family members: the consultant is the moderator and advisor in the process of discussing specific problems regarding the succession process.
> - Implementing specific actions and monitoring them during the transfer of management control and ownership.

Fostering this skill:

Planning is a major part of business consultants' activities. Planning skills are necessary for the consultant in order to develop a plan for succession or prepare a model for business development. Not everything in a consulting process can be planned.

For example, it may not be possible for the consultant to predict the emotions and reactions of the family members. Planning skills can be improved and developed with practice.

Business analysis skills:

A brief description:

A "Strengths, Weaknesses, Opportunities, and Threats" (SWOT) analysis is a useful technique that consultants could use for understanding Strengths and Weaknesses, and for identifying both the Opportunities and Threats the company faces during the succession process. Business consultants should know that strengths and weaknesses are often internal to the organization, while opportunities and threats generally relate to external factors. Analysis of the strengths and weaknesses of the business and prediction of their cyclic recurrence is one of the skills that business consultants should acquire to handle their clients' business succession. This skill enables business advisers to identify both internal and external influences regarding the ownership transfer from the owner of the company to the successor.

> **A practical example:**
>
> The consultant must be aware of what sources should gain, compare, and correlate information in terms of its staffing composition, assets, markets, and competitors. He/she should make a SWOT analysis, and also a strategic analysis about the succession process. He/she should also discuss the company's strengths and weaknesses with the family members and also to predict how the succession process will end.

Fostering this skill:

Analysis of the strengths and weaknesses of the business will help the consultants to know the necessary information about their clients. Consultants who are well prepared achieve better results. It is a useful tool in developing and confirming their goals regarding the work with the family business company. The consultant should be aware of what resources she/he should gain, compare and correlate information in terms of its staffing composition, assets, markets, and competitors. A good prediction for the company's future could be made by picking a reference of similar past events. Good grounds for and the reasons behind the business strengths and weaknesses cyclic recurrence forecast is another way of to improve this specific skill.

Work-family balancing skills:

A brief description:

The ability to balance business, ownership, and family interests. Family conflicts, incompetent members of the next generation, and flamboyant lifestyles are just some of the more frequent issues that consultants could face when dealing with family businesses. Generational transition is the highest risk for the company future, and the vast majority of families in business fail to effectively deal with it. Many of the failures regarding the transition period could be prevented by an appropriate and comprehensive preparation by the consultant. Business consultants help family members to discuss issues, repair past injuries, and develop the tools needed to face disagreements effectively.

A practical example:

> Business consultants must find how the balance between 'family' and 'business' could be achieved in practice. In this regard they should explore all the possibilities and propose the best plan for succession planning and transfer of the family business. They should be ready to propose an appropriate decision for the resolution of possible conflicts.

Fostering this skill:

Conflicts are a natural and predictable aspect of human interaction. Internal family business conflicts have a special complexity. Usually they consist of elements and factors outside of the business issues and also spark unexpectedly. The conflict may have started years earlier. The consultant should be aware of all the family disputes and also to have the ability to balance between the business, ownership, and family interest. This specific skill could be improved and developed by passing through a specific mediation training course. Previous experience and practice is also a good opportunity for the consultant to end successfully the transfer of ownership and management of the family business. The consultant should be able to draw continuity with the strategy of the family business and ownership structure after inheritance and transfer.

Communication skills:

A brief description:

The ability to convey information effectively and efficiently. One of the most important skills that consultants possess is communication. Sharing the knowledge obtained from practice and training into transformational advice is a difficult skill to master, but is essential to building trust. Business consultants with good verbal, nonverbal, and written communication skills help facilitate the sharing of informa-

tion between people within a company. Even more, the consultant moderator and advisor in the process of discussing specific problems analyses the business and the whole succession process, and makes recommendations to management based on the analysis. Communication skills can be just as important to consultants as technical expertise.

A practical example:

> The succession planning process includes continuous dialogue and planned discussions devoted to different problems solving. Business consultants must be ready to lead this communication and also to moderate the dialogue between the family members.

Fostering this skill:

Effective communication is one of the most important consultancy skills. Business consultants could improve and develop their communication skills by:

- Active listening of the family members.
- Being aware of the family members emotions.
- Attempting to resolve the existing conflicts.
- Deepening their connections to the family members
- Building trust through the organization of formal training sessions, apprenticeships, and experience outside the company via workshops, internet courses, etc.

Data analysis skills:

A brief description:

Analysis of the data from the company documents and the company financial results is a process of collecting and organizing of information so that the consultant can come to a conclusion regarding the succession process. Data analysis also allows the consultant to answer questions, solve problems, derive important information and support the decision-making process. Sophisticated analytics can substantially improve decision making, minimize risks, and unravel valuable insights that otherwise remain inconspicuous. The succession process is the toughest and most critical challenge that the family companies could face. The health and longevity of a family business depend on careful transition planning and also on adaptation of the company and family members to the new conditions.

A practical example:

> Data analysis allows the consultant to answer questions, solve problems, derive important information and support decision-making process. Business consultants need to develop skills to assist in:

- Coping with partial information;
- Recognizing and assessing contradictory data;
- Identifying unreliable data;
- Making realistic assumptions;
- Developing complicated reasoning chains supported by assumptions and evidence;
- Using intuition to reach defensible assessments and interpretations.

Fostering this skill:
How does the consultant could improve and develop their data analysis skills?
- Information collection and analysis;
- Recognition of current legislation and existing practices and traditions in succession of the business;
- Turning information about the company into knowledge;
- Seeking out information about similar companies and building a strategy;
- Outlining a list of basic needs that must be met by the family businesses before they can get beyond their problems;
- Asking the family members the right questions.

This project has been funded with support from the European Commission.
This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Unit 3:

Defining owner's and family members' vision

After this unit, you should be able to:

- Clarify and define the owners' and family members' vision, goals, and perspectives for the future of the company.

- Identify the role that these participants have in the company after succession has been effectuated.

- Be able to answer the indicative aspects to be addressed: What are their personal goals and timeframes while thinking (or not) about business transition? What are their business' key value drivers? Do the owners want to stay active in the business, make an immediate departure, or somewhere in-between? Do family business members want to take over?

Key aspects to understand visions for the company's future:

This guide of the key aspects serves to help business consultants understand what they should take into account when defining the owners' and family members' vision for the future of the company, as well as their roles in the company after succession has been effectuated.

Vision for the company's future:

a) Will the company continue its activities in the same area/industry?

b) If the respond of the previous question is "yes", does the successor have a plan of how to enlarge the company's activity and what priority they will be given to the new activity?

c) If the respond of the previous question is "no", what will be the new field in which the company will develop its new activities?

Company's successor:

a) Does the company's successor have the necessary preparation to manage the company?

b) Does he/she need to pass specific training?

c) How long will the owner retain their participation in the company's management, and in what way?

Role of the company's owner:

a) Does the company's owner have the intention to fully withdraw from the company?

b) Is he/she willing to help?

c) Will the successor be independent during the business management processes?

Relations with the company's partners:

a) Does the company's successor have the intention to keep the contacts with the company's partners?

b) Does the company's successor have the necessary experience and authority to continue the contacts with the company's partners?

c) Does the company's successor have the intention to go beyond the established

contacts and markets?

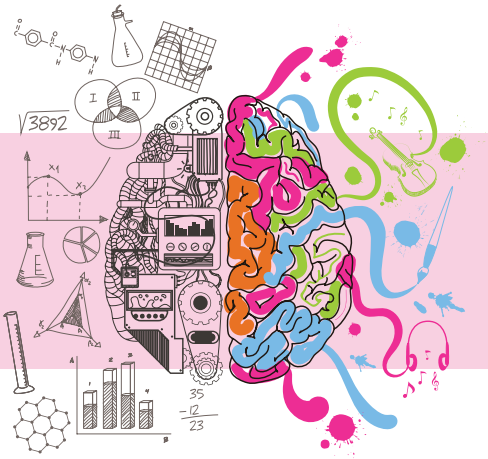
Skills of the Company's successor:

a) Does the company's successor have the ability to balance between the problems of business and family?

b) Does the company's successor tend to make changes regarding the role and position of the company?

c) Does the company's successor have qualities of a manager which he/she could show in the implementation of the company's strategy?

Train your brain



1. Clarification of the cases:

Which are in the core of the succession transfer process?

- The number of the successors in the family (one, two, etc.)?

- The identification of information resources and processing of the selected data?

- The examination of the business state until the beginning of the transfer process?

- The prognosis of the possible options for future development?

- The definition of the role of family members for the succession process fulfilment?

- Do family members agree on the succession process?

- Is there a lack of consent between family members regarding the succession process?

Explanation:

This specific exercise aims to outline the vision of the owner and the family members regarding the future of the company. It is very important for the consultant to clearly know that the owners' values shape the vision they have for the business. Two dimensions could differentiate regarding the owners' vision: their vision for the nature of the business, and their vision for the structure of their ownership. Regarding the succession process the consultant should understand the interactions between ownership and management. In a family business where the owners also share the values and emotions of their family, governance might best be seen as a set of relationships among management, owners, and the family.

This project has been funded with support from the European Commission.
This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Unit 4: Tackling intra-family dynamics and related psycho-social issues

After this unit, you should be able to:

- Support family business owners in tackling issues such as giving up control, opening up to new ideas, managing emotions, addressing fear or reluctance to retire, boosting self-esteem, etc.
- Understand how to help family members cope with the owner's feelings and perspectives, realise that business performance could be improved by better organising the family's relationship with the business, etc.

Cases studies to understand how and when to implement specific skills:

Using a list of possible situations, several case studies have been selected to express how business consultants can apply their skills to successfully manage diverse key succession situations by tackling psycho-social issues affecting owners and family business members during the transition process.

1. Dealing with an owner who is not open to the new ideas that his/her successor has about the business.

2. Dealing with an owner who feels fear or reluctance to retire and makes the transition of the business to their successors really difficult.

3. Supporting family members to understand and manage their emotions when there is not a good relationship with the owner.

4. How to engage family members into the transition process.

5. How to manage the diverse demands of the family members regarding the succession and the new idea of business.

6. When communication becomes difficult or is broken and needs to be improved or restored.

7. When a family member does not feel recognized for his/her role in the business.

8. To make to a family member understands that his/her personal or/and professional visions do not comply with the ones of the business.

9. How to know if a family member really wants to be a part of the family business or not, and, if so, to what extent.

10. How to support a family member to identify his/her role in a potential new business area.

Case study 1:

Example:

A 65-year-old winemaker leads his company in the third generation and wants to hand over the business to his daughter. Therefore, he gives the daughter a leading position while still being her superior. The winemaker was told by his consultants that a successive succession promises the best results. The daughter adapts very well to her tasks and soon recognizes growth potential in the implementation of an online store to reach more clients than the traditional distribution channels used by her predecessors could achieve. The father – anchored in the family business traditions – refuses every attempt of persuasion which leads to a counterproductive working climate.

Solution:

A consultant should play the role of a mediator him/herself or search for an external mediator who possesses the trust of both father and daughter. It is important that the father is convinced that the traditional ways of the business will be honoured. The daughter on the other hand needs to be assured that her innovative thoughts are not suppressed. A mediator can help compromising when emotions are preventing a rational solution.

Evaluation elements:

Conflicts addressed:
- Predecessor's fear of change.
- Successor's fear of stagnation.

Skills applied:

- Communication skills.
- Psychological skills.

Lessons learnt:

If emotions hinder rational decisions a neutral third party can help finding compromises. Trust is an important factor!

Case study 2:

Example:
The financial consultant of the manager and owner of a carpenter's workshop specialized in producing closets for the tourism industry notices that his client has no plans for a succession process within his firm. The family business owner and father of three children seems to be too occupied to keep his business financially healthy in the more and more turbulent economy. He clearly oversees the issues and problems that an unplanned succession will provoke. When asked he disputes the necessity of succession planning because he claims to be still capable of leading the company.

Solution: A consultant oftentimes has more than one role when advising a company. In this particular case the consultant worried about the missing succession planning is the financial consultant responsible for financial planning and tax advises. He/she can include the succession issue in, for example, discussions about financial reserves or the tax issues of inheritance. Thereby, he/she increases the business owner's awareness towards the necessity of early planning because he/she can point at specific problems that will inevitably occur if not appropriately planned for.

Evaluation elements:

Conflicts addressed:

- Successor's fear of losing control.
- Successor's tendency of dismissing succession planning because other decisions are more important to him/her.

Skills applied:
- Conflict resolution.
- Communication skills.

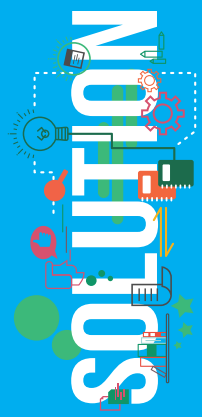
Lessons learnt

By staying in his/her field of expertise the consultant can guide the reluctant business owner to see and understand the problems of succession without mentioning sensitive topics like age and death.

Case study 3:

Example: An internationally operating slaughterhouse is a fourth generation family business lead by two brothers and their children. They are all married and while two of their spouses work in different positions in the firm, two spouses are stay-at-home mothers. A conflict arises when the latter use company-owned cars for private activities. They are accused of exploiting firm money and they counter with the argument that the other spouses are using company-owned cars as well.

Solution: A clear differentiation between business and family has to be established generally and especially in situations as described above. Consultants have to argue from a neutral position and still maintain the trust of all conflicting parties. It is recommendable to set up a detailed written agreement regarding every aspect of private use of firm money and company-owned materials. In this particular case it should contain not only rules of when and how to use company-owned vehicles but also concrete numbers (e.g. fuel limits, distance limits, etc.) to which every family member can agree and which do not endanger the family business' financial health.



Evaluation elements:

Conflicts addressed:

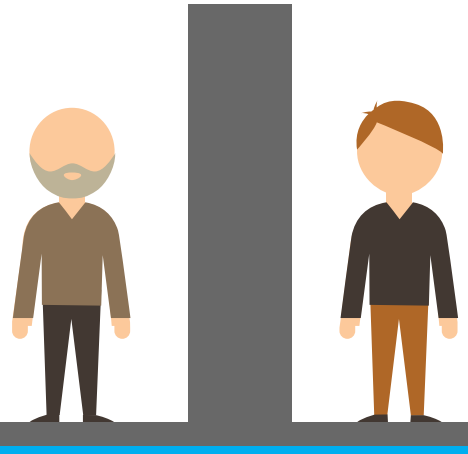
- Use of company property by family members.
- Possible envy among family members.

Skills applied:

- Conflict resolution.
- Mediator skills.

Lessons learnt:

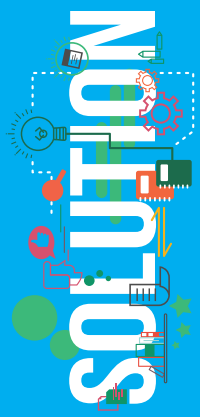
To avoid future conflicts among family members it is recommendable to establish clear boundaries between business and family, and to record them in a contract.



Case study 4:

Example: The conflict of how to execute a successful succession between a mason, owner of his own family business, and his son and successor escalates. Although the son is already working in the company the communication between the two is set on hold. This causes severe problems in the communication with customers and the business suffers significant losses.

Solution: When the predecessor and the successor are already working together in the family business, it is very important to establish early plans for the transition. In this way, both parties know exactly when and how the responsibility as well as the accountability are transferred, and can act accordingly. In the absence of such plans conflicts may arise that can damage the business. The consultant's role in a conflict such as that described above should consist of both sides providing concrete plans that arrange for the needs and desires of both parties, as well as encouraging bilateral communications by bringing predecessor and successor together on neutral ground and functioning as a mediator.



Evaluation elements:

Conflicts addressed:

- Communication standstill.
- Avoiding financial damages to the company caused by internal family conflicts.

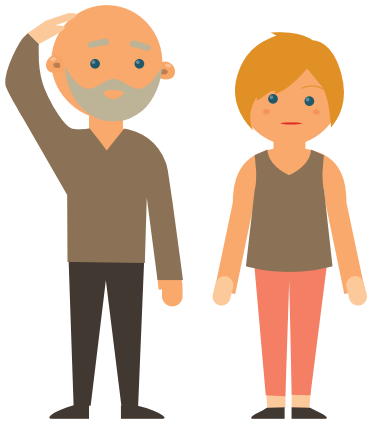
Skills applied:

- Combining succession planning with conflict resolution.
- Mediator skills.

Lessons learnt:

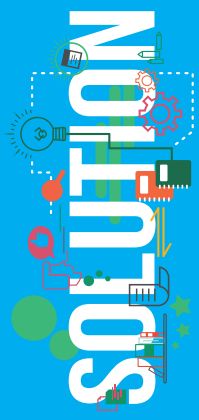
A consultant has to know when it is necessary to present a complete plan for succession and when it is better to stimulate discussion only. In this case presenting a concrete plan helps solving internal family conflicts.

Case study 5:



Example: The manager and owner of an internationally operating transport company knows about possible succession conflicts first hand as he experienced several of them when he inherited the company from his father. He is aware that early planning is one of the most important factors of a successful transition and wants to introduce his daughter to the business in an early stage. When she is fourteen years old he teaches her the basics of driving a forklift and increases her pocket money when she helps out in the business. As graduation comes closer he is unsure on how to both keep her interest and prepare her for taking over the family business the best possible.

Solution: Consultants should have a well-established knowledge about possible courses or fields of study that are helping entrepreneurs in steering a company. He/she should encourage a discussion with the successor him/herself or provide the predecessor with the necessary information to engage the discussion. To encourage the successor to stay in the family business it oftentimes helps to use networks of family businesses. In these, potential successors can come together and stimulate each other. If no such network exists, it is advantageous to establish one among the consultant's customers (or among the customers of all advisors in the consultant's own network if needed). All parties should try to find a balance between the personal interests of the successor and the addition of expertise level knowledge to the successor's skillset.



Evaluation elements:

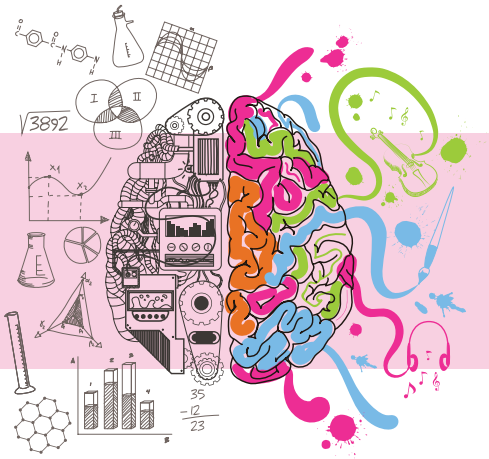
Conflicts addressed:
- Keeping the interest of potential successors.
- Prepare potential successors.

Skills applied:
- Knowledge about appropriate education.
- Networking skills.

Lessons learnt:

Keeping up the interest of potential successors and preparing them for taking over the business should go hand in hand.

Train your brain



1. Communication training and planning a discussion

All five case studies have in common that the consultant has to engage in a discussion with the family business members. Imagine that you are the consultant in one of the case studies and you are preparing for the first discussion to solve the problem. Name five arguments that you anticipate to encounter and draw up a strategy to find a compromise in the chosen situation.

This project has been funded with support from the European Commission.
This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Unit 5: Encouraging change

After this unit, you should be able to:

- Understand how to give incentive for and demonstrate the benefits of timely transition planning, and the disadvantages of not planning properly.

- Be able to lay the groundwork for a multi-generational organisation taking into account all visions, needs, and missions involved.

- Help owners and family members decide whether succession or sale is the best option.

Case studies to understand the importance of succession planning:

These case studies have been selected to show examples that business consultants can use to explain the benefits of timely transition planning and the disadvantages of not doing so.

Case study 1:

A small artisan's business owned by a family for several generations is rooted in traditions and as the managing owner wants to retire, he wants his son to take over the business. This is how it worked with him and his father before and he never doubted that it would be different with the next generation. He prepared his son by teaching him the craftsmanship and letting him study business administration and management at university. Planning the succession never seemed necessary to him besides expecting his son coming back to the family business and taking over. The son however does not feel obligated to embrace the role of the family business successor. He feels overqualified for taking over a small business that will barely support him and his family in the future. Despite his family traditions he decides to sell the business after taking over.

Evaluation elements:

Although the owner was confident about his succession plan, he never sought to formalize the transition by discussing it and agreeing by contract with his successor. Consultants should sensitize the predecessor for these issues in a timely fashion. The same is true for the possible successor: If he/she does not want to take over, he/she needs to state this as early as possible. A consultant should seek a timely conversation with possible successors as well.

Main benefits or problems:

This particular case will cause a rushed sale of the family business, likely leading to a sell-out with suboptimal outcome for the family.

Case study 2:

Despite having three children whom he prepared to be able to take over the business, a dairy farmer has made alternative plans for the succession process if none of his children shows interest in the business. A long-time employee and chief of financial operations has developed an extended overview of the business and understands the internal and external business processes. Long before his children went to university the dairy farmer engaged in negotiations with the employee and discussed a management buyout of the firm in the case of his children rejecting the succession. For the improbable worst case that both his children and the long-time employee refuse to take over the firm the predecessor already sought for an expert opinion of the firm's value to be prepared for an asset sale. Thereby he has made sure that at least his family will receive a decent equivalent value to pursue their future goals.

Evaluation elements:

A consultant should at least raise awareness of the benefits of timely planning. He/she can use his/her networks and provide expert insights, either by him/herself or provided by the network, on financial and legal issues. Advice in every step is recommended:

1. Preparing and training the children
2. Identification of and negotiations with suitable employees
3. Expert valuation of the company.

Main benefits or problems:

The family business owner remains flexible and has backup plans for the succession process.

Case study 3:

A leather producing factory is a third generation family business lead by a 52-year-old owner. As he deems himself healthy and capable of managing his firm for years to come, he never engaged in succession planning. On a very tense business journey he has a severe heart attack and has to be put into a medical coma. In consequence, no one has access to important documents, bank accounts, or even the key to the owner's bureau as no precautionary actions were arranged for such cases before. Although it is possible to achieve access to all necessary data and transfer the legal decision-making power to the owner's deputy, the process to do so takes two weeks. In the meantime, the business experiences severe losses due to the inevitable inaction. Customers shy away from the risk of an inactive manager and therefore ineffective procedures.

Evaluation elements:

Even unexpected events should be planned for if they can affect and damage the company severely. Consultants should raise awareness about such possible cases and provide insight about emergency planning.

Main benefits or problems:

Without emergency planning the firm cannot operate at least on a functioning level.

Case study 4:

When the owner of a car house suffers severe brain damages during a motorcycle accident and is unconscious for several weeks, the firm's consultant implements the emergency plan he and the owner developed two years ago. The owner's deputy gets immediate access to all banking transactions and the bureau of the owner. He is able to settle the three major outstanding payments to make sure that the next deliveries awaited by their main customers will arrive on time. The firm's staff manager receives the right to make final decisions on personnel issues and is able to hire the additional salesmen needed for the firm's planned expansion in the neighbouring town.

Evaluation elements:

The most important legal and financial issues of the firm are covered by the emergency plan. Consultants should promote these plans in cases of emergency to their customers in a timely fashion. In some cases, there are handbooks provided by the local chambers of commerce to provide a guideline to emergency planning. The consultant should also take quick actions and either deliver the details to the owner's legal representative or take action himself/herself.

Main benefits or problems:

The firm survives the absence of its owner with minimal losses due to careful and timely emergency planning.

Case study 5:

The son of the owner of a mechanical construction company specialized in custom-builds takes over the family business after studying engineering and business administration. But as many business relations rely on the trust between the manufacturer and his customers, which is built during long-time relationships, many customers take their business to a local competitor of the firm. They don't know about the son's abilities and don't want to take the risk of a decreasing level of creativity when it comes to complicated custom-builds.

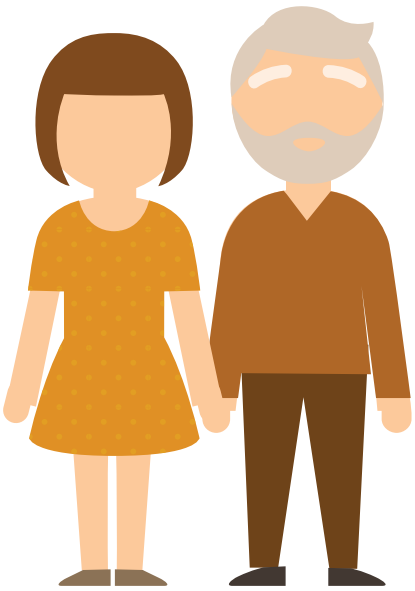
Evaluation elements:

Especially in businesses that provide highly specialized solutions like in this case, but also in businesses that need to provide stable production and price management that customers can plan with, mutual trust between owner and customers is an imperative. If a successor fails to signal his/her ability to match the customers' needs, consultants can step in and help the young owner within this signalling process by providing their experience and seniority. As long time companions of the predecessor consultants can balance the inexperience of a successor.

Main benefits or problems:

If customers cannot establish a relationship of mutual trust with the successor of a family business, the danger of losing them is considerably high.

This project has been funded with support from the European Commission.
This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.



Case study 6:

Since her 16th birthday the daughter of a wheat farmer attends the meetings with clients and customers of her father. She learns how to engage in business negotiations and more importantly she becomes familiar with the family business's main contractors. After her studies in business administration and achieving a university degree in agricultural sciences she succeeds her father and takes over the family business. Due to her priory built relations with the main customers she can maintain them. They are assured of her abilities to carry on the business in a way that is beneficial for both sides. The father is still providing additional insight and help from the background but he does not need to be the official manager in charge anymore.

Evaluation elements:

The trust between the firm's management and its customers is already established before the actual succession. Consultants should encourage this. If there is a management buy-out planned, this should be communicated with the firm's clients as well. In the case of an employee buying the firm the same process as described above should be engaged. If an outside investor buys the firm the issue should be addressed with customers prior to the transition as well. Consultants can take the role of mediators in the necessary proceedings.

Main benefits or problems derived from the approach selected in the case/example

The transition process was smoothed significantly by the early preparations.

Case studies to understand the decision of succession or sale:

This collection of case studies has been put together to help business consultants support owners to choose between the two approaches to the business transition:

Case study 1:

The owner of a pottery has provided his oldest son with a thorough training with the aim to let him take over the company. As a first step the son learned the basics of all technical aspects in the pottery like operating the different kinds of machinery. He also gained insight in the product transportation that is also included in the business. Later the son took engineering lessons and studied business administration. After a period of working alongside with his father the son is encouraged and willing to take over the family business. Although there is a substantial offer from a local competitor to buy the company, the owner decides to retire and inherit the company to his son.

Evaluation elements:

- Determining the existence and the suitability of a possible successor.
- Compare benefits of an intra-family succession against an external offer.

In most cases family business owners want to transfer the ownership in the family.

A consultant should still assess all possibilities and advise accordingly. In this case a suitable successor is available but it should be checked by the advisor whether it is financially recommendable to reject the outside offer. Two questions have to be answered:

1. Is the company fully sustainable in the future?
2. Wouldn't it be beneficial for the family to accept the offer if it exceeds the actual value of the firm?

Succession or sale?

A willing successor is available and suitable. In these cases, it is oftentimes recommendable to reject outside offers for buying the firm.

Case study 2:

The son of the owner of a bakery, who was meant to be his father's successor, returns home from university after studying food processing technology. As planned he begins working in the family business. After some weeks he decides that he does not want to take over and seeks for a conversation with his father. The discussion evolves into a bitter family dispute. The father fears for his life's work, the son is worried about the future ability of the business to provide for his family and wants to take his skills elsewhere. The long-time consultant of the firm steps in as a mediator. After looking for a possible candidate among employees to buy the firm, they decide together that they will offer the business to one of the employees who already has experience in filling in for the father in management issues. The employee accepts the offer and by the consultant's advice a two year exit plan for the predecessor is worked out. He will successively hand over responsibilities while the buyer has the chance to learn leading the business.

Evaluation elements:

- Designated candidate for succession rejecting.
- Searching for alternate candidates.
- Revising a plan for succession.

The consultant has several tasks in cases like this. In disputes he/she can act as a mediator between family members, he/she can support in the search for suitable buyers, and he/she helps revising the new exit plan.

Succession or sale?

A sale to a well-known employee can ease the decision for owners who fear for their life's work, and for the company's vision when selling outside the family.

Case study 3:

The succession process in a small advertising agency was decided years ago: the owners, a couple who inherited the business from the spouse's father, have two children who are both trained to take over. The 25-year-old son studied media design, the daughter, who is two years younger, studied business administration with an emphasis on marketing strategies. The succession plan includes a successive exit strategy for the parents over the next three years. After one year of working together, a bigger competitor expands his business to the family's city and the family business is not able to sustain its business figures. After a sharp decline in revenues the family has to decide whether to accept the buying offer the competitor has made or to restructure the business with the hope to fight the acquisition attempt. They ask their long time financial consultant for help to evaluate their ideas of restructuring. She advises the family to specialize in online advertising for local businesses, as this market segment promises a stable and high enough income with a lower cost structure. The family decides to reject the competitor's offer.

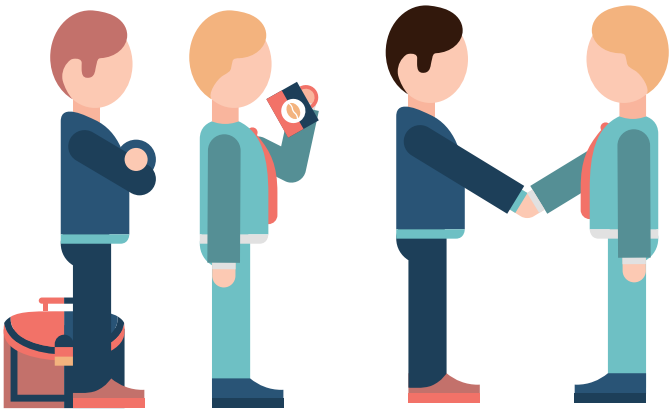
Evaluation elements:

- Determining strategies against hostile acquisition attempts.
- Deciding between restructuring and selling the family business.

Oftentimes family businesses are smaller than their competitors and have to adapt and restructure their business idea when their traditional strategies lead to declining numbers and endanger the business. Consultants can provide their experience in financial aspects and can evaluate restructuring ideas. They have a neutral point of view which is not limited by tradition or emotional bonds.

Succession or sale?

In this case the succession process itself is already secured and planned out. The decision to make was on the restructuring attempt to fight a hostile takeover attempt. Careful financial calculations and market knowledge are needed by the consultant to provide enough insight to make a reasonable decision.



Case study 4:

The owner of a chain of pizza restaurants has no children and is approached by his bank consultant when he turns 55 to discuss the future of the business after his retirement. As new long term credit lines have to be negotiated, the consultant takes the opportunity to address the looming problem. After some struggles, the family business owner agrees that the issue has to be addressed. With the consultant's help he works out the following alternatives:

- Search for a suitable succession candidate among his employees.
- Divide the business in city-wise segments and find buyers for each segment.
- Restructure the business into a franchise system.

The search among employees is unsuccessful, and so is the search for buyers in each city. After it was advertised by the bank consultant who used his business network to do so, the franchise model however finds the interest of an outside investor.

Evaluation elements:

- Raising awareness for the need of succession planning.
- Developing and evaluating alternatives.
- Using the consultants' networks to find outside investors.

Oftentimes consultants are aware of the need for succession planning earlier than family business owners. In this case, the issue should be addressed by the consultant, in the best case scenario by having it embedded in another issue that is the consultant's field of expertise.

Succession or sale?

If no obvious candidates like children or long time employees are available in the succession process, the consultant has to address the need for a successor in other ways. The strategy involved is highly dependent on the business in question though.

Case study 5:

A father of three sons and the owner of an outdoor equipment store with an attached online wholesale business decides that a succession process needs to be started to reassure his wholesale customers about their long term relationships. He invites his family to his home and begins a discussion with his sons on how and to whom to transfer the business. One son instantly rejects the position of being a successor; the other two both show interest in taking over the family business. Two conflicts arise from this situation:

1. The son, who does not want to take over, claims his right to be bought out of his heritage by the other two. The amount of money needed to buy him out directly is not available in cash reserves and new debt would endanger the company's future performance.

2. The two remaining sons argue over responsibilities after the succession, neither wants to be of lower rank.

The father contacts his long-time advisor to mediate in the conflicts. Together they work out that the non-succeeding son's payment will be a payment of five instalments over the next five years. The succeeding sons will be managing partners and their responsibilities will be divided according to their individual abilities (one has a law degree; the other studied accounting and finance).

Evaluation elements:

- Mediating between succeeding and non-succeeding heirs.
- Mediating between two successors with equal heritance rights.

Consultants of family businesses need firm mediating skills. Decision making in succession processes can be very emotional and heated up. In many cases a neutral voice is needed that can differentiate between the family members' and the company's needs.

Succession or sale?

If the non-succeeding son would have insisted on his immediate payment and this payment would have exceeded the company's capacities a sale would have been imminent. The portrayed compromises prevent this.

Case study 6:

The small plumber's shop managed and owned by a father and son duo shows declining revenues while costs increase. When the son gets married the income provided by the business is not high enough to support the whole family. The attempt to expand to generate higher revenues by acquiring the business of a competitor fails and the bank consultant advises an asset sale to rescue the remaining value of the firm or finding a third party investor to keep the business alive. Through the bank consultant's business network and the mediation of the local chamber of commerce an outside investor can be found, who is willing to merge his own plumbing business with the family business in question. Father and son will remain in managing positions but the new investor will be the majority owner of the merged firm.

Evaluation elements:

- Evaluating financial situations.
- Advising for possibly emotionally hurtful steps to resign as the (sole) owner.

Consultants need to be realistic and when in doubt advise in the company's favour.

Succession or sale?

The imminent bankruptcy needs to be addressed. When the only chance for the firm's survival is to invite outside investors, a consultant should always advise vehemently in this direction.

Succession or sale: a brief questionnaire to help you support decision reflection:

This short questionnaire was created specifically for business consultants to help support owners and family members to reflect on decisions they make about choosing succession or sale.

Five core areas to take into account when debating between succession or sale:

Availability of a suitable successor

A successful succession is only possible if a suitable successor is found among family members or employees. The decision process to determine if candidates are suitable is complicated. Consultants can provide neutral help by engaging in conversations with candidates and determining their skills and their willingness to take over the family business. If there is no candidate or all candidates prove to be inadequate, a sale is unavoidable and should be communicated to the firm's owner.

Sample questions to consider:

1. Does the owner have children or other relatives that are suitable successors?
2. Is there an appropriate candidate among the firm's employees?
3. In the absence of a suitable successor, are there willing investors to take over the whole business (otherwise: asset sale)?

Possibility of legal dispute among candidates

Given the case that more than one candidate wishes to succeed and take over the firm, and all these candidates have legal claims to inherit the company, e.g. more than one child, a legal conflict can arise that would damage the company. If no compromise can be found, like dividing the company in viable subunits that can operate as independent firms or splitting managing responsibilities among candidates, a sale should be advised. By selling the company the likely damaging legal affairs are circumvented. The candidates are able to use the money generated by the sale to start anew.

Sample questions to consider:

1. Is there more than one candidate for succession?
2. If yes, do they all have legal entitlements/claims to the business?
3. How can a compromise be achieved that avoids a possible legal conflict?

Firm's financial health

The company in question has to have the carrying capacities to provide for the successor and his/her family. Hence, the financial health of the company should be

checked before the transition. If there is considerable doubt on the firm's sustainability, an asset sale should be advised. Otherwise the successor will likely have to sell at a later time with severe losses.

Sample questions to consider:

1. Is the firm's current outcome high enough to provide for the owner and his/her family?
2. If yes, will this hold true in the future (despite a succession process)?
3. How much would the selling price decrease after the succession?

Danger of forced acquisitions

Highly related to the financial health issue is the danger of forced acquisitions. Consultants should check whether their client has the potential to be acquired by more powerful competitors. In times of succession the firm naturally experiences times of increased financial distress and is more vulnerable to such attempts. Therefore (financial) consultants should check if any stronger competitor is in the market for a firm expansion and advise for a timely sale if an acquisition seems imminent and unavoidable.

Sample questions to consider:

1. Are there any potential buyers of the firm that could overpower the current ownership?
2. If yes, are there any possibilities to strengthen the firm against acquisitions attempts?
3. How much would a fight against a possible buyer devalue the company (as it is costly to defend against the attempt)?

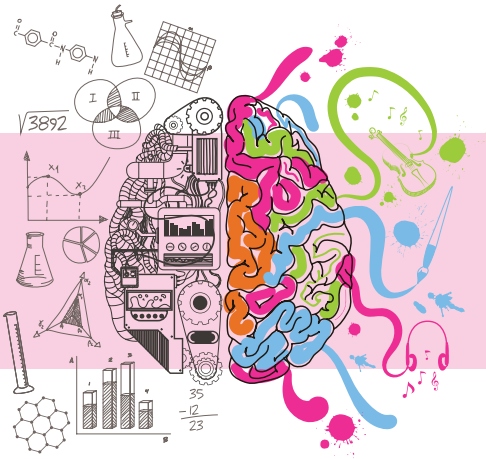
Endangerment of owner's vision

The consultant should check whether the owner's vision of his/her company is endangered if the transition is implemented. This can be the case if the successor will knowingly change a firm's philosophy after taking over or if the firm's key fields of activity will be replaced by non-matching ones. The consultant should inform the owner and present the alternative of an asset sale. Thereby the owner's vision is not saved but at least a complete twisting of it is prevented. This should be a last-ditch effort though if all other negotiations fail.

Sample questions to consider:

1. How important is the current firm's philosophy to the current owner of the firm?
2. How imminent is a change of the firm's philosophy after the succession process?
3. How could a compromise be found (and be legally defended after the succession)?

Train your brain



1. Helping with timely planning

Pick one of the case studies in activity 1 that has a negative outcome because the succession process was not planned in a timely fashion. Then imagine you could advise the owner before the situation goes awry. Which steps would you take to raise awareness for the benefits of timely planning? How can you use your position as a consultant to overcome the owner's and other family members' reluctance to plan the succession? Provide a step by step analysis.

This project has been funded with support from the European Commission.
This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Food for thought
Websites, videos, and blogs links related to the topics:

Damodaran's sessions on firm valuation:

https://www.youtube.com/playlist?list=PLUkh9m2BorqmSH1Y8QIYQ-0HnbWpHvBzf
You will find more information on the Net Value Approach in Session 19, while Sessions 3 to 13 cover the DCF approach, and Sessions 17 and 18 explore the multiples valuation briefly discussed in Unit 1.

Extracts or quotations from reports, literature and other sources that added value:

"Several employers' organisations or chambers of commerce address issues specifically relevant to family firms (e.g., succession), therefore explicitly or implicitly benefitting family businesses." - Overview of Family Business Relevant Issues

http://www.pedz.uni-mannheim.de/daten/edz-h/gdb/08/familybusiness_study_en.pdf
Every consultant should check on their local chamber of commerce website whether they provide specific help on succession issues.

"Lack of family firms' awareness of the importance of timely planning for intergenerational business transfer (particularly in the NMS and against the changing framework conditions such as socio-demographic change), resulting in ill-prepared successions endangering the firms' survival."
http://www.pedz.uni-mannheim.de/daten/edz-h/gdb/08/familybusiness_study_en.pdf

Important bibliography:

Carsrud, A. L., & Brännback, M. (2011). *Understanding Family Firms: Case Studies on the Management of Crises, Uncertainty and Change. New York: Springer Science & Business Media.*

Brännback, M., & Carsrud, A. L. (2012). *Family firms: case studies on the management of growth, decline, and transition*. New York: Springer-Verlag New York.

Carsrud, A. L., & Brännback, M. (2011). *Family Firms in Transition: Case Studies on Succession, Inheritance, and Governance.* New York: Springer Science & Business Media.

In these three casebooks you will find in depth case studies on family businesses if you want to read further than the short examples presented in the Units 4 and 5. Especially the third one focuses on successions and inheritance issues.

Other materials:

http://pages.stern.nyu.edu/~adamodar/

Damodaran's homepage covers nearly everything about corporate finance. So if your interest was awakened by Unit 1 and you want to further deepen your knowledge about the topic you will find mostly anything here, presented in a pragmatic and practice-oriented way.

This project has been funded with support from the European Commission.
This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Module 3:

Planning for intra-family succession

This is the core module enabling business advisors to support the succession process from both a business and a family perspective, addressing more technical issues, alongside potential psychological effects and intra-family dynamics emerging in this respect.

This project has been funded with support from the European Commission.
This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Unit 1:

Embracing the shared future vision

After this unit, you should be able to:

- Integrate and combine the visions and goals of the **owners** (e.g. reduced business risk, funds for retirement, remote control over the succession process and the business development, etc.), the **potential successors** (roughly identified as willing and capable to drive growth), and non-successors (with an interest in a flourishing business and return on investments, etc.) in view of defining the shared future vision of all the family members involved (leading, employed, to be employed, and investing) in the business.

The owner(s), the successor(s), and the non-successor(s):

It is fundamental for the business consultant to understand these three main factors when defining the visions for the future of the company. Three main aspects are addressed for each of these participants in relation to succession of the family business.

Introduction

The individual visions of the family business owner, the successors, and non-successors for the future of a family firm should be clearly articulated, shared, tested, and eventually endorsed by all of them. The creation of a vision in each case is a process; first at the individual level, and then at that of the family members as a unit involved in the family firm through different roles, with different goals, expectations, and dreams.
Coming up with a shared vision for the company future, involving the process of succession, is a family task where the family business consultant can help in determining and then integrating individual visions in a commonly accepted shared vision. The aspects demonstrated below are suggestions for the consultants to take into consideration as underlying elements and factors which impact the main themes of a vision at a personal level. They should be considered as indicators guiding the consulting process, as well as possible sources of implications in the development of a shared vision.

The owners' vision: three important aspects

1. Family firm survival

The core concern of any business owner is the survival of the firm. In the field of family businesses, business survival is obviously connected with the family as a business family. The success or failure of the family firm eventually has a much greater impact on the family as a unit itself, than in any other non-family business type. The concern is amplified if the family firm of today has been handed over one or more generations in the past. The family business owner vision is thus strongly conditioned by his/her concern to keep the business alive in the first place, avoiding to be the one to receive all the bad credit of having lead the family firm to close down. The owner's vision is most probably inherently carrying the weight of passing the torch to someone who will best secure the survival of the firm as a priority to be then followed by the 'hows' and 'whats'.

2. Next generation leadership competence and entrepreneurial attitude

Closely related with the previous aspect, the leadership competence and entrepreneurial attitude of the generation which will take over the family firm are of deep concern for the current family business owners. Furthermore, this goes hand in hand with the assumed fears of all the new models of managing and directing a company that will come along with the new successor at some point in the future, having thus an impact on own vision.

To what extent will the culture of the company be preserved or changed? How will new management styles and entrepreneurial attitudes in the future be absorbed or adapted to the company 'as the current owner and leader knows it and envisions its future'? What implications are in play when coming up with a shared vision together with next generation, and what will the current owner's role in the future amongst these issues? This last question is leading to the next aspect.

3. Managing authority and the role of the transferor (the current owner) in the future

Power relations and authority models within the family firm will change during and after the process of succession. When articulating a personal vision for the family firm, the current owner is most probably projecting him/herself within that vision; he/she is thinking of an active role in meeting the aims of that vision; a role which in turn implies a certain amount of power and authority to do so in the future when next generation will have taken over. The owner's vision should take stock of these elements, bringing them into the equation with the aim to facilitate the development of a shared vision among family members with least possible friction and maximum commitment.

The successors' vision: three important aspects

1. Living and acting in the shadow of the senior generation

When successors are prompted to define their own expectations, goals and dreams which give form and content to their own vision for the future of the family firm, they think of themselves as …. successors, that is, as those who take over a responsibility, a task, a 'sacred' mission to some extent which is inextricably related with the family's past, present, and future. It is a family and a business issue at the same time. These successors base their visions on the family system, how the family and the business function, and how interactions and relationships among family members are modelled. Therefore, successors think at about their own personal vision and the assumed or expressed vision of the senior generation as objectives to be equally satisfied. To what extent will successors be reckoned, however, as simply living in the shadow of the generation before them? How radical in formulating his/her vision should a successor be to gain a separate identity and, at the same time, preserve harmony among the family members and the business's success? This aspect eventually leads to the next one which deals with the issue of gaining respect as a successor by committing oneself to a shared vision which takes into account personal visions of the successor.

2.Acquiring respect

Closely related to the previous aspect, in formulating one's own vision, a successor is in front of a prospect quest to gain respect from the whole 'system' including family,

employees, managers, stakeholders, and customers. He/she is dealing most probably with contrasting aspects – to comply with the vision of the senior generation and act as a 'perpetuator' of a legacy, a tradition as 'handed over', or to fight against certain aspects of that vision and act as a ground-breaking 'disruptor' (a 'make or break' situation amplified by possible intergenerational communication gap). Following this, a successor would position him/herself accordingly in a personal vision having to, however, think of a strategy to gain respect and justification from family and the family firm at the same time.

3. A different philosophy of life

This might sound too generic or even trivial, but families, as meeting points of different generations, can equally be considered as melting pots or, more often, as battle grounds between different views of how things should work in life. A vision for the future of a family firm could thus serve as the perfect opportunity to express different views of life that will eventually affect the business and the family, and, above all, as a vehicle for the younger generations of successors to carve out their own identity against that of the senior generation. Therefore, this need to express oneself will be channelled to the creation of a personal vision as part of a shared vision. This is an important aspect and prospect implication when going through the process of integrating family visions for the future of the family firm.

The non-successors' vision: three important aspects

1. Exploration of probability or potential to become successor at a future point in the family firm

Non-successors in family firms are non-successors because they are not involved in the family firm, they are involved but not chosen as such, or they are not interested to take over the family firm. When they are thinking of their own expectations from and dreams for the family firm, they too look at a future picture of the family firm and imagine themselves in this picture. Depending on the reasons for being non-successors they explore the probability and the potential to become successors at some future point. This exploration is strongly conditioned by the age, the gender, the educational background, and the interfamily relationships among other things. These are elements which probably are most responsible for their role as non-successors as well.

2. Anticipating future turning points in family dynamics

Non-successors are not in leadership roles within the family firm, but are interested in forecasting changes in family dynamics that will emerge in the future, turning points like the transfer of the family firm to the next generation. This involves the relationship status with the 'leaders' as interconnected with the own desired role in the family firm as non-successor.

3. Prospects of alignment or conflict of elements of their own vision with the vision of prospect successors

Non-successors, by laying down their own vision for the future of the family company, and depending on their position within the family (different aspects should be expected for example from a non-successor wife or husband, daughter or son, second or third grade relatives etc.) and the firm ('employee', manager, new or old in the firm etc.), weigh in the core elements of their own vision(s) with the vision of the persons who will come into power (leadership) in order to correspond to them or make them corresponding to their own vision. For example, the wife or husband of the current owner of the family firm will manage quite differently his/her vision when compared to a future successor, like a son or daughter, and vice-versa. The influence of non-successors should be taken seriously into account when looking at their own vision and their positioning in the continuum of the family and the family firm.

Three business models used to support business consultants:

These three business models serve three main purposes: first to identify, find out, and empathize with each different perspective; second, to communicate and discuss the 'results' with the whole family; and, finally, to work together with the family with the intention to integrate and combine the different views, goals, visions, to the extent possible, concluding to the so-called 'shared future vision'.

The Circumplex Model of Family Functioning
by Olson, D.H., Circumplex Model of Marital and Family Systems

A brief description:

As documented in various family business research studies, a family business cannot be appropriately understood without understanding the family behind it in the first place. The characteristics and the dynamics of the family itself behind every family enterprise have been poorly or marginally explored. While within the scope of family business as a topic, it takes a variety of sciences to study the family, e.g. economics, entrepreneurship, sociology, management studies, family studies. The proposed model comes from the disciplines of Psychology and Family Studies, and the only purpose which it is supposed to serve here is to help the family business consultant in identifying the way a family funtions with respect to the degree (high or low) along two dimensions:

- Adaptability and Flexibility, i.e. the degree to which the family is flexible, in terms of adaptability to change and growing to accommodate new circumstances

- Cohesion, i.e. the degree of emotional closeness among the family members

By positioning the family across these two dimensions, that is the degree or levels of flexibility and cohesion (from high to low levels respectively), the consultant can obtain a basic level of knowledge and an overview of the model within which the family functions, and how the family members interact and communicate with each other. This knowledge in turn can help the consultant to better understand the family dynamics that come into play in the process of the creation of a shared vision and, eventually, the process of change in succession planning and the actual transfer of the family firm to the next generation. Without having a basic understanding of these aspects, it becomes extremely hard to communicate with the family members in regards to their visions and how they can be brought under the same roof in a way that will secure harmony within the family and sustainability of the family business.

As it will be presented, degrees that are too low or too high in these dimensions of flexibility and cohesion are, in their own way, substantial obstacles in creating and supporting a shared vision for the future of the family firm. The family business consultant is not supposed to act as a family therapist, but with the help of this model he/she can intervene trying to bring more balance in the family system, focusing on the future of the family firm as a collective asset of the family.

How the model works:

First off, each of the two dimensions – 'Adaptability/Flexibility' and 'Cohesion' – is further partitioned to four functioning and behavioural styles, which respond to the high or low degrees of the dimensions. The four functioning styles for the dimension 'Adaptability/Flexibility' are 'chaotic', 'flexible', 'structured', and 'rigid', and the respective ones for the dimension 'Cohesion' are 'disengaged', 'separated', 'connected', and 'entangled'. Eventually, the degrees of family flexibility and cohesion are high to low across the relevant functioning and behavioural styles as shown in the table below:

'Adaptability/Flexibility'	Degree	'Cohesion'	Degree
ChaoticH	ighD	isengaged	Low
Flexible		Separated	
Structured		Connected	
Rigid	Low	EntangledH	igh

Utilising this basic matrix, the consultant will then try to identify which functioning style in each dimension reflects the family in question best. This will eventually determine the low, medium, or high degree of flexibility, adaptability, and cohesion that characterize the family, condition the communication style within the family, and determine the interaction mode among family members.

In order for the consultant to be able to connect a concrete family functioning to the appropriate functioning style of the model in each dimension, she/he should seek how 'leadership', 'discipline', 'roles', and 'change' regarding the dimension of Adaptability/Flexibility on the one hand, and how the 'individual' vs. 'the collective', 'closeness', 'loyalty', 'independence and dependency' regarding the dimension of 'Cohesion' on the other, are conceived and exercised within the family. (Please consult the 'practical example' for ways to further explore functioning styles and how to deploy the model).

Sources:

Olson, D.H. (2000). *Circumplex Model of Marital and Family Systems. Journal of Family Therapy*, 22, 144-167.

Olson, D. (2011). *FACES IV and the Circumplex Model: Validation study. Journal of Marital and Family Therapy,* 37(1), 64-80.

Sanders, C., & Bell, J. (2011). *The Olson Circumplex Model; A systemic approach to couple and family relationships.* InPsych, 33, (1).

A practical example:

In order to work across the two dimensions mentioned here, i.e. 'Adaptability/Flexibility' and 'Cohesion', and identify the appropriate functioning style for the family in question, a consultant could use certain indicators that help to assign functioning styles to families (see below, 'List of indicators'). This can be done by drawing from one's own experience and knowledge through his/her collaboration with the family members and the family firm, or by initiating discussions on these issues to help him/her draw some basic conclusions. Obviously, initiating discussions with family members about such delicate and sensitive matters is not an easy task to do, and the outcome depends heavily on the relationships between the consultant and the family business members, the family business leader as a pivotal personality, as well as the degree of openness and trust characterizing the family in question as a whole.
Below you can find a List of indicators which can serve as check points to help identify the appropriate functioning style of a family across the two dimensions of flexibility and cohesion. The indicators can form the basis of queries on behalf of the consultant, or even questions to trigger discussions with the family members, in order come up with an attribute next to each indicator as presented in the table below. For example, the consultant should try to answer to questions such as, 'What does leadership look like? Is there a lack of leadership, or maybe too much authority in play?', 'What is the amount of loyalty in the family?', 'Are there elements of strict discipline, or is discipline a non-issue within the family?, etc. The answers to the questions help to check the respective indicators in order to respond as closely as possible to the family functioning style.

Indicators for the identification of the family functioning style

'Adaptability/Flexibility''	*Cohesion'*
Chaotic *Indicators* ***Leadership**: Lack* ***Discipline**: Erratic* ***Roles**: Dramatic shift* ***Change**: Too much*	*Disengaged* *Indicators* ***Individual/collective**: 'Me' prevails* ***Closeness**: Little* ***Loyalty**: Little* ***Independence and dependency**: High independence*
Flexible *Indicators* ***Leadership**: Shared* ***Discipline**: Democratic* ***Roles**: Sharing* ***Change**:W hen necessary*	*Separated* *Indicators* ***Individual/collective**: 'Me' and 'Us'* ***Closeness**: Moderate* ***Loyalty**: Moderate* ***Independence and dependency**: Interdependent (independence prevailing)*
Structured *Indicators* ***Leadership**: Sometimes shared* ***Discipline**: Democratic but restricted* ***Roles**: Stable most of the time* ***Change**: When demanded*	*Connected* *Indicators* ***Individual/collective**: 'Me' and 'Us'* ***Closeness**: High* ***Loyalty**: High* ***Independence and dependency**: Interdependent (dependency prevailing)*
Rigid *Indicators* ***Leadership**: Authoritarian* ***Discipline**: Strict*	*Entangled* *Indicators* ***Individual/collective**: 'Us'* ***Closeness**: Very high*
***Roles**: Standard/ No change* ***Change**: Too little*	***Loyalty**: Very high* ***Independence and dependency**: High dependency*

Working with the findings of this process, and considering the four different functioning styles for each of the two dimensions, these dimensions should eventually be coupled and integrated in order to come up with the final family functioning style, merging the flexibility aspect with that of the cohesion aspect as they can be coupled across the 4 functioning styles in each of the two dimensions.

According to the fundamental assumptions and principles of the model, there are three different combinations of family functioning styles, each one involving different levels of challenge for a family to deal with development and change.

Set 1: Chaotically disengaged, chaotically entangled, rigidly disengaged, rigidly entangled

Set 2: Flexibly separated, flexibly connected, structurally separated, structurally connected (the coloured part in the table above)

Set 3: Chaotically separated, chaotically connected, flexibly disengaged, flexibly entangled, structurally disengaged, structurally entangled, rigidly separated, and rigidly connected.

As stressed by the model and its methodological and analytical qualities, Set 2, where 'Flexible' and 'Structured' as functioning styles within the dimension of 'Adaptability/ Flexibility', meet 'Separate' and 'Connected' within the dimension of 'Cohesion', is the 'sweet spot' which offers the most balanced family functioning style. The potential for the family to function as a unit which shares common objectives and vision, by successfully responding to internal and external demands, as well as to the needs, dreams, expectations, and goals of the family members, is in this case extremely high.

In Set 3, the family system would be challenged to a high extent in finding its way towards creating a shared vision and support it by an appropriate way of interaction and communication. However, a family exposing this functioning style and behaviour has the foundations to move towards the group of functioning styles of Set 2, especially if the family members work together in order to improve their communication skills and enhance the communication channels among them.

Lastly, Set 1 embraces the most problematic combinations, as in this case the family is either chaotically or rigidly disengaged or entangled. The creation of a shared vision would be an impossible task to undertake. In this case, family members most likely have their own agendas and little or nothing is shared among them, let alone a shared vision for a family firm. This doesn't mean that there are not family firms that are functioning within such family system. Even then, however, the job of a family business consultant should be seriously supported by family experts from other disciplines, to be able to support the family at multiple levels.

Following the process of identifying the functioning style of the family across the dimensions of flexibility and cohesion, the consultant can work backwards by revis-

iting the indicators and their attributes as provided in the respective table. The aim would be to support the family members in enhancing or developing those personal and communication skills that will help them change the current status of the family system and functioning style that it implements by tackling those issues that respond to certain indicators in each case (e.g. leadership, roles, closeness, dependency etc.) which have a negative impact in the process of creating and sharing a vision for the future of the family firm.

Creating a vision statement

A brief description:

A shared vision for a family firm is the synthesis of individual dreams and goals that are first articulated, then openly communicated and commonly discussed, and, finally, filtered down to create a common ground of understanding and commitment among family members in their diverse roles as owners, managers, prospect successors, and active or non-active family members in the everyday workings of the family firm. A shared vision is then a family statement on behalf of the family members (in particular family business owner, successors, and non-successors), who state that they look to achieve the same objectives, acknowledging their interdependence as well as roles and responsibilities along the way.
In order to come up with a shared vision, one has to start with the identification of individual goals and dreams. Following this, the topics involved (in terms of concerns, meaningful aspects, declarations, morals and values etc.) that emerge when each family member articulates his/her own goals should be determined, as it are those ideas that will be the building blocks of the shared vision statement.
Drafting a vision statement comes next. This is not an easy task to do, and it is strongly suggested that one or maximum two persons should undertake it, as drafting the vision statement as a group of 'authors' is rather difficult and can be deteriorating.
The aim of this model is to bring family members to the same table with the task to openly communicate their goals, dreams, and hopes about the family business and the family as a unit in general of course. The whole process amplifies the notion of the family as a team, which is the starting point to share within the family based on a system of mutuality and reciprocity. The process of the vision statement creation can be initiated by the senior generation as part of succession planning, but also as part of any planning that involves strategies to accomplish the vision in general, the determination of roles, establishing the persons accountable for certain aspects of the plan, and considering certain complications and ramifications in the process.

Source:

Leslie Dashew, www.lesliedashew.com The Human Side of Enterprise.

The model visually:

No templates or working sheets are actually needed to put the model into practice. However, certain aspects of organising the process in terms of workshops to be held

by the family members should be considered. The workshops/meetings should be moderated by one or two persons, ideally representing the senior and the next generation, the business owner, the successor(s) and non-successors. A flipchart would be needed for writing down the themes as emerging from each family member when determining own goals and dreams.

The steps as described in the next section could be the objective of separate workshops/meetings among family members.

A practical example:

> The creation of the statement of a shared vision is an exercise for the family and the business. Ideally, this exercise should be executed with all family members involved in the business in a face-to-face fashion. It is often the case that such a thing is not easy to achieve because of friction, conflict among family members, because of the way a family functions, highly or poorly appreciating face-to-face open communication and expression of feelings, dreams, or even technical difficulties to attend such meetings in person, etc. Therefore, and especially when considering this exercise as a crucial step towards successful succession planning and execution, the consultant should explore the feasibility and the extent to which a basis of trust, open communication, respect of opinion, and diversity are established within the family and among the family members (To this end, Model 1 as described above is lending a helping hand to the consultant, in order to gain a basic understanding of the way a family functions).

Steps and guidelines for the creation of a vision statement

Step 1: Identification of dreams, goals, and expectations at a personal level

During this step, all family members should articulate and openly communicate their goals for the family firm, their dreams and expectations as they consider them to have conditioned, are conditioning, and will condition their lives in the present and the future. A good idea is to have the family members write down these ideas, and then read them out in front of all the participants. The model to be followed could be the one of writing a letter to one's self about their involvement in the family firm up to the moment, all that has happened, and how she/he was part of it. Sentiments should be included as well, while the 'letter' could close with the desired view of the author with respect to his/her own future and that of the family firm. This 'letter' could be prepared at an earlier stage, before the actual family meeting.

Step 2: Themes

One family member – all members could vote in this case – should undertake the task of listing the topics that emerged during the previous step. Themes could vary in form and nature. In particular, they could express tangible or more abstract concepts and concerns (e.g. earning more money vs. leading a happier life, or having more time to

spend with family vs. the self beyond the business etc.). It then becomes a task to pin down the most important issues raised by the individual testimonies, and expressing them at the same time in a way that makes sense for these elements to become the building blocks of the vision statement. At this point, the person assigned to collect and list those topics and concerns should keep in mind that the vision statement is a straight-forward, concise, and clear statement about the future of the family and the family firm as being conceived and desired by the family members.

Examples of themes to be interwoven in shared vision statement:

- The family firm as legacy to be passed to future generations.
- The growth, profit making, and insertion into new markets as a commitment for the future.
- The diversification and adaptation of new technologies is a must.
- The goal to grow and safeguard harmony within the family as well as prosperity at the same time.
- Supporting next generation by providing life options through the opportunity to join the family firm.

Step 3: Drafting the vision statement

Following the collection and listing of themes as expressed at the individual level, the first draft of the vision statement should be developed. It should be clear at this point, that the vision statement is a description of 'what', in terms of what the company and its people, the family, intend to become, and not the 'how', which would be the part of a mission statement.

This job should be assigned to one or two persons among family members, ideally representing both the senior and the next generation. The draft vision statement could be short or long. Short vision statements are often no longer than one sentence, e.g. "Helping people enjoy life; this is the vision of our business and our family", or "Having our services in every home". Longer vision statements on the other hand can have the size of a medium to large paragraph. In any case the vision statement should not exceed a half page.

Tips for drafting a good vision statement (to be conveyed to the family business members):

- Choose words carefully and try to say a lot with few words.
- Think in long-term proportions, stay close to the big picture.
- Include all main personal aspects/themes as collected and translate or synthesise toward one big picture, as a painting.
- Don't be over the top specific, as this is limiting flexibility in the future.
- Don't be over the top generic, e.g. "our goal is to succeed and live prosperous lives"; again, translate themes into visions.
- Think of what the business does, what it means for the family, and how the family wants it to appear to the outside world and within the family.

The draft of the vision statement should be circulated to the family members, and they in turn should carefully review it and suggest edits individually. The edited draft should then be reviewed and edited by the whole group openly and collaboratively. The final draft should then be 'tested' by the family members, involving the consultant actively in the process. The process is described in the next section (Model 3 – Crash testing the shared vision statement).

Important:

Usually, the process of the creation of a shared vision statement is not a one-off exercise for the family. It might take a series of meetings, formal or informal, to come up with the final result. Furthermore, it all depends on the relationships status among family members, the levels of authority exercised by the senior generation, the flexibility or rigidity of the family as a unit, the form of the family – e.g. nuclear or extended family -, etc. However, the four phases of the model can be applied in any case. What is important for a consultant using this tool is that along the way, the duration, the friction involved, the drawbacks, and the possible dead-ends or the lack thereof in the whole process should be seriously considered as variables that determine the success level of the exercise.

Crash testing the shared vision statement

A brief description:

This is a concise model and practice complementing the previous model which dealt with the process of the creation of a shared vision statement as the result of collaboration and co-creation of the family members. This practice deals with testing the shared vision statement by means of prompting family members to ask questions to see if the answers 'provided' by the vision statement reflect and actually meet personal dreams and goals, or the extent to which the vision statement truly motivates them to work towards the directions as stated. If the results of this test for each family member are negative or not satisfactory, editing and adapting take place. If the results are positive and satisfactory, then the planning process can start.

Whereas the business consultant can play a supporting role in the previous model, providing the suggested structure, aims, and tips to the family members on how to better deal with the whole process towards the creation of the vision statement, in this practice, the consultant should take on a more active role in moderating the testing process and collaborating with the family towards the creation of a final shared vision statement. The consultant should bring factors and prerequisites (technical, financial, external and/or internal, managerial, etc.) into the equation to further justify and validate the vision of the family firm as achievable, and above all shared by the family members.

The model deals with the moderation of a discussion with the family members on

the basis of the shared vision statement that has been created, which should evolve around a set of questions by the family members to check and test the vision statement vis-à-vis their own individual goals, dreams, and expectations. According to the results of this test, the shared vision statement should remain as is, or rearranged as needed and agreed.

A practical example:

> In order to test the appropriateness of the shared vision statement for all the family members, and the extend by which it reflects personal goals and hopes in line with those of the rest of the family members, a set of questions could be suggested by the consultant to the family members, to be answered separately by them and provide the basis of possible discussions to rearrange/adapt the shared vision document. The family members should suggest further questions which they consider important throughout the testing process. The consultant can support family members in articulating those questions and including them in the questions. Each family member should then provide an answer to the questions in writing. The answers should be short and followed by concise explanation, avoiding simple 'Yes' and 'No' answers. It is of high importance for the participating family members to be as honest with themselves as they can. The aim is to test the shared vision statement against its ability to inspire, motivate, and aspire to as well.
> Once all the answers are collected, the consultant, working as a moderator, could lead an open discussion on the topics that have emerged, which either justify the shared vision statement or identify certain mismatches with own considerations and goals. In the latter case, with the help of the consultant, the themes coming from the family members' personal statements should be revisited, as those were the building blocks of the shared vision. The family members and the consultant should then draw the connections between the provided answers and the specific topics used in the shared vision statement. Rearranging the shared vision statement could be followed by further clarifying those aspects of the vision statement upon which the provided answer of one or more family members 'stumbled upon'. The 'change' could range from the substitution of one or more words, to the reformulation of a passage which is has proven to be unclear after the questions test.

Examples of questions for the family members:

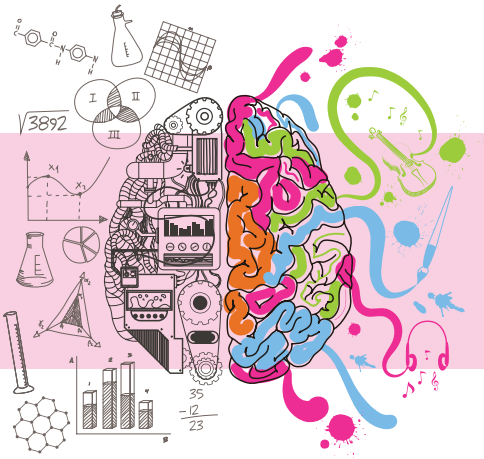
- Does the vision statement reflect the main strengths of the company?
- Does the vision statement reflect and make use of the main strengths of the human resources at hand?
- How would things be different for me if this vision turned into reality day by day?
- Do my hopes and expectations connect on a personal level with those of the other family members, based on the way the vision statement is articulated?
- Is there something highly ambivalent or unclear in this vision statement?
- Is this vision statement motivating for me? Is it something I feel like really

wanting to help achieving?

- Reading through this vision statement, am I able to see myself in there in the role I want to play? How close is this role to the one expected from me by the others?
- If I was seeking a good job, or was about to make a career change, would a vision statement like this one make me want to join this company?
- Would I feel extremely comfortable and proud to announce this vision statement if needed to people I appreciate a lot?
- Is this vision statement in line with my self-image, my personal, and social identity?
- Would it be something that I would happily pass to the next generation as a legacy?
- Is this vision statement clear but not too rigid to be flexible enough for future revisions, as a living document rather than 'cast in stone'?
- Are there any words or expressions included which I would like to change? Which are those, and what are my suggestions?

This project has been funded with support from the European Commission.
This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Train your brain



1. Shared vision promotes family firm performance
by John E. Neff

A brief description:

Using the link below, access the article written by Neff and begin this 'train your brain' activity.

https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4436804/ - __sec5title

Click on the Go to: tab at the right of the beginning of the Abstract section. Choose 'Materials and methods' from the scroll down list. Scroll down a bit to the 'Shared vision' section. Read carefully the short section.

Please try to provide on your own answers to the following questions/topics using the opinion of the author (use simply a blank page and then cross-check with the original source). It is of course highly recommended to read the whole article:

A. A shared vision is.....
1.
2.
3.

B. A shared vision inspires the entire organization to .....

C. Please name three out of the five aspects of the 'wide-ranging' positive impact on an organization a shared vision can have
1.
2.
3.

D. What would be the main benefit of a shared vision for the family members in the firm?

This project has been funded with support from the European Commission.
This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Unit 2:

Building the succession strategy & plan

After this unit, you should be able to:

- Put into practice the hard skills for needed to be a business consultant in the view of developing a clear, comprehensive succession plan, balancing all sides, such as the shared family & business vision, the business "health", and intra-family dynamics as identified in previous units.

Different approaches to succession planning:

The first activity of this unit focuses on the identification of three different approaches to succession planning, based on literature about business succession or from particular companies (i.e. Deloitte, Manpower, etc.). These approaches differentiate between ownership and management succession. Each approach includes references to the actions envisaged in the plan as well as monitoring indicators.

Succeeding with Succession Planning in Family Businesses: The Ten Key Principles
A family business's current leader, other family members, and the top management team will need to begin having an open and candid discussion about succession-related issues. Ten principles can guide the process (Bhalla, V and Kachaner, N, 2015).

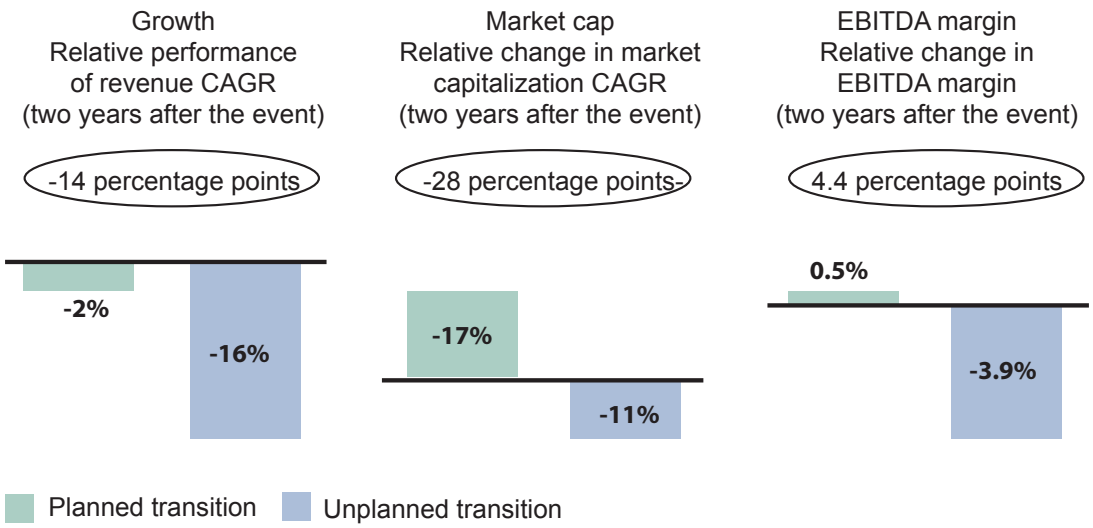
A brief description:

In a recent survey by The Boston Consulting Group, family business leaders ranked succession as the second-most-important subject on the their minds, topped only by the closely related issue of achieving alignment among family members on critical topics. Even so, their research found that more than 40 per cent of family businesses have not adequately prepared for succession during the past decade.

The consequences of not focusing on succession despite its obvious importance can be profound; a leadership void and the resulting discord can significantly undermine the company's performance. Indeed, poorly planned successions are among the biggest value-destroying events for family-owned businesses.

BCG's research sheds light on the extent to which poorly planned successions can harm revenues, market capitalization, and margins. They found a 14-percentage-point differential in revenue growth over two years when comparing family businesses that had planned transitions with those that had not.

Unplanned Transitions Destroy Value



Source: BCG analysis of more than 200 transitions that occurred from the 1995 through 2014

Planning for a smooth succession starts with recognizing that it will be one of the most complicated transitions that a family business will experience. The family must also recognize that it is never too early to start discussing succession and that the costs of getting succession wrong will be nothing short of catastrophic for the business. These challenges mean that family members must focus strongly on succession planning, giving it their undivided attention on many occasions. Based on our experience advising family businesses on succession, we have identified ten principles that improve the chances of succeeding with succession.

Start early. Families may hesitate to plan succession because they are uncertain how the interests, choices, and decisions of different family members will play out over years or decades. But succession planning should start as soon as possible despite this uncertainty. Although things may change along the way, leaders can often anticipate the potential scenarios for how the family will evolve. Issues to consider when developing scenarios include the number of children in the next generation and whether those individuals are interested in the family business as a source of full- or part-time employment or purely as an investment. Families should also consider how the scenarios would be affected by marriages or the sudden demise of a family member or potential successor. It is important to plan a succession process and outcome that will work for the different foreseeable scenarios.

Set expectations, philosophy, and values upfront. Although setting expectations, philosophy, and values is central to many family-business issues, we have found that doing so is essential when it comes to succession planning and must be done up front, even if the specific mechanics of succession come later. In our experience, the family businesses that thrive and succeed across generations are those that possess a core philosophy and set of values linked not to wealth creation but to a sense of community and purpose.
Long before decisions will be made about specific potential successors, the family must agree on overarching issues such as whether family unity will take precedence over wealth creation, whether all branches of the family will have an equal ownership right and voice in decisions, and whether decisions will be based purely on merit and the best interests of the business. These guiding principles will provide the framework for more specific decisions.

Understand individual and collective aspirations. Understanding family members' aspirations, individually and collectively, is critical to defining the right succession process. Leaders of the succession process should meet with family members and discuss their individual aspirations for involvement in the business. For example, does an individual want to work for the business or lead the business, or, alternatively, focus on the family's philanthropic work? Or does an individual want to chart his/her own course outside of the business? The family's collective aspirations can emerge from the effort to establish a philosophy and values. Does the family want its business to be the largest company in the industry? Is maintaining the business as a family-owned-and-operated company of paramount importance, or does the family want to relinquish operational responsibility in the coming years? Understanding these aspirations helps in managing expectations and defining priorities in the succession process.

Independently assess what's right for the business. Although the best interests of the business and the family may seem indistinguishable to some family members, in reality the optimal decisions from the business's perspective may differ from what family members want for themselves. This distinction makes it essential to consider what is right for the business independent of family preferences when developing a succession plan. It is therefore important to think about succession from a purely business perspective before making any adjustments based on family preferences. This allows leaders to be transparent and deliberate in the trade-offs they may have to make to manage any competing priorities.

Develop the successor's capabilities broadly. A family business should invest in developing the successor's capabilities and grooming him/ her for leadership. The preparation should occur in phases starting at a young age—even before the successor turns 18.

The challenges of leading a family business are even greater than those faced by leaders of other businesses. In addition to leadership and entrepreneurship, a successor needs to develop values aligned with the family's aspirations for the business and its role in society—capabilities that constitute stewardship of the company. Given the rapidly increasing complexity of business in the twenty-first century, we often strongly recommend that potential successors gain experience outside the family business in order to broaden their perspective.

Some of the best-managed family businesses have elaborate career-development processes for family members that are the equal to world-class talent-management and capability-building processes.

Define a clear and objective selection process. A company needs to define a selection process to implement its succession model—whether selecting a successor exclusively from the family or considering nonfamily executives as well. The selection process should be based on articulated criteria and delineate clear roles among family governance bodies and business leaders, addressing who will lead the process, propose candidates, and make decisions.

An early start is especially important if several family members are under consideration or the potential exists to divide the business to accommodate leadership aspirations. To obtain an objective perspective on which members of the younger generation have the greatest leadership potential, some families have benefited from the support of external advisors in evaluating talent and running the selection process.
It is important to note that the selection process, while critical, is the sixth point on this list. Points one through five are prerequisites for making the selection process itself more robust and effective.

Find creative ways to balance business needs and family aspirations. Striking the right balance between the business's needs and family members' aspirations can be complex. Addressing this complexity often calls for creative approaches—beyond the traditional CEO-and-chairperson model.

For example, the leader of one BCG client split his conglomerate into different companies, each to be led by one of his children; the split occurred without acrimony and in a planned, transparent manner. Beyond helping family members fulfil their aspirations, such a planned split can often greatly enhance value for the business. Another client systematically expanded its business portfolios as the family grew and tapped family members to take over the additions, thus ensuring that several members of the family had a role in the leadership of the businesses.

Stepping into an executive position is not the only way family members can contribute to the business or help the family live its values. As an alternative, family members can serve on the board of directors or take leading roles in the family office or its philanthropic activities.

B**uild credibility through a phased transition.** Successors should build their credibility and authority through well-defined phases of a transition into the leadership role. They can start with a phase of shadowing senior executives to learn about their routines, priorities, and ways of operating. Next, we suggest acting more as a chief operating officer, managing the operations closely but still deferring to the incumbent leaders on strategic decisions. Ultimately, the successor can take over as the CEO and chairperson and drive the family business forward.

It is important to emphasize that the family member who assumes leadership of the business does not necessarily also become the head of the family, with responsibility for vision setting, family governance and alignment, and wealth management. The transition of family leadership can be a distinct process.

Each phase of the transition often takes between two and six months. The transition should be defined by clear milestones and commensurate decision rights. A sudden transition can be disruptive, which is especially harmful if the intent is to maintain continuity in the family business's direction and strategy.

Ask departing leaders to leave but not disappear. Most leaders bring something distinctive to a family business. Holding onto this distinctiveness in a transition is essential but requires a delicate balance. Although departing leaders should relinquish managerial responsibility for the business, they should remain connected to one or two areas where they bring the truly distinctive value that made the family business successful under their guidance. However, the leaders should be involved in these activities through a formal process, rather than at their own personal preference and discretion. Departing leaders should stay available to guide the new leader if he/she seeks their advice.

To help leaders strike this balance and overcome their reluctance to let go, companies can create a "glide path" plan that sets out how they will turn over control in phases and transition into other activities while the successor assumes control and builds credibility.

Family businesses should also consider the need to adjust aspects of the company's governance model when the departing leader hands over the reins. Although such adjustments can be made outside the context of succession, they often become particularly relevant after transitions to the second or third generation. A strong leader's hands-on governance approach is often no longer sustainable for the next generation, creating the need to divide and formalize roles and institutionalize many business processes.

Motivate the best employees and foster their support. Managing the company's most talented nonfamily executives is especially challenging during the succession process. The company needs to ensure that these executives have opportunities to develop professionally and take on new responsibilities and that morale remains high. Involving executives in the succession process can help to foster their support for the new leader. For example, they can be asked to serve as mentors for the successor or lead special projects relating to the succession. Surrounding the new leader with a strong and supportive senior team is a key ingredient for success, and the departing leader should ensure that such a team is in place.

Assessing the Status of Succession Planning Today

As an initial "health check" to assess the current status of their succession planning, family businesses should consider a number of issues:

- Has the family clearly articulated its values and the principles that will guide its decisions and succession process?
- Has the current leader committed to a fixed retirement date?
- Has the family evaluated the pipeline of leadership talent within its younger generation? Has it looked at potential leaders who come from within the business but not from within the family?
- Has the company defined a succession model and determined the timing for selecting a successor so that he/she has a sufficient opportunity to prepare for the leadership role and build credibility before the current leader retires?

Does the family understand how it will accommodate the aspirations of family members not selected for leadership roles, in order to maintain harmony and avoid discord during the transition to new leadership?

In many cases, family businesses will find that the answers to questions like these will indicate the need to devote much more time and attention to succession planning. Most importantly, the current leader, other family members, and the top management team will need to begin having an open and candid discussion about succession-related issues to enable the business to thrive for generations to come. These discussions are never easy, but they are essential. Getting succession wrong can be an irreversible and often fatal mistake for a family business.

Bhalla, V., & Kachaner, N. (2015, March 25). *Succeeding with succession planning in family businesses: The ten key principles*. Bcgperspectives. Retrieved from goo.gl/ZBQ8GK

Business succession planning: Cultivating enduring value

This publication is a compilation of a six-volume series that addresses the broad range of topics that need to be considered in order to facilitate an orderly transition of management and ownership (Deloitte, 2015).

A brief description:

The operational demands of running a family business or other closely held enterprise can be all-consuming, but it's vital that business leaders take the time needed to assess their organization's business succession planning.

The penalty for failing to get ahead of leadership or ownership changes can be significant, as the coming years may bring substantial transfers of wealth as businesses change hands and adopt new ownership structures.

The long-term survival of a business, and the preservation of the wealth that has been built, will likely depend on getting ahead of those changes through strategic succession planning.

For private, owner-managed, or family-owned businesses, a solid succession plan can drive the growth of the business, reduce taxes, and set the stage for retirement. Family-run businesses may benefit further by focusing on preserving harmony within the family. This publication is a compilation of a six-volume series that addresses the broad range of topics that business owners need to consider in order to facilitate an orderly transition of management and ownership, including:

- How a strategic, long-term approach to business succession planning can help meet personal and business goals — and how to get started.
- How the choice of entity structure, valuation methods and financing options can impact succession planning — and outcomes — for private businesses.
- How management talent assessment, development and compensation planning can help solidify the next generation of company leadership.
- How planning ahead for estate and gift taxes, life insurance and investments can help address family and business needs and meet retirement goals.
- How to balance business needs and family concerns in order to create a long-term governance plan that can help the business and family prosper together.
- How adopting leading practices and strategies can help confirm that one's legacy isn't left to chance.

Taken together, these issues demonstrate that succession planning is an important and evolving process. This is not a subject to be put off until later, to be done successfully, it needs to be an integral part of a company's business strategy and operations.

Deloitte Development LLC. (2015). B*usiness succession planning: Cultivating enduring value*. Retrieved from goo.gl/kTnsXY

Family Business Succession Planning and Management Five-Step Process

Succession planning and management is an essential component of the broader human resources planning process. It involves an integrated, systematic approach for identifying, developing, and retaining capable and skilled employees in line with current and projected business objectives (Treasury Board of Canada Secretariat, 2012).

A brief description:

STEP 1. Identify Key Areas and Positions Key areas and positions are those that are critical to the organization's operational activities and strategic objectives.

- Identify which positions, if left vacant, would make it very difficult to achieve current and future business goals.
- Identify which positions, if left vacant, would be detrimental to the health, safety, or security.

STEP 2. Identify Capabilities for Key Areas and Positions: To establish selection criteria, focus employee development efforts, and set performance expectations, you need to determine the capabilities required for the key areas and positions identified in Step 1.

- Identify the relevant knowledge, skills (including language), abilities, and competencies needed to achieve business goals.
- Use the Key Leadership Competencies profile.
- Inform employees about key areas and positions and required capabilities.

STEP 3. Identify Interested Employees and Assess Them against Capabilities: Determine who is interested in and has the potential to fill key areas and positions.

- Discuss career plans and interests with employees.
- Identify the key areas and positions that are vulnerable and the candidates who are ready to advance or whose skills and competencies could be developed within the required time frame.
- Ensure that a sufficient number of bilingual candidates and members of designated groups are in feeder groups for key areas and positions.

STEP 4. Develop and Implement Succession and Knowledge Transfer Plans: Incorporate strategies for learning, training, development, and the transfer of corporate knowledge into your succession planning and management.

- Define the learning, training, and development experiences that your organization requires for leadership positions and other key areas and positions.
- Link employees' learning plans to the knowledge, skills (including language), and abilities required for current and future roles.

- Discuss with employees how they can pass on their corporate knowledge.

STEP 5. Evaluate Effectiveness
Evaluate and monitor your succession planning and management efforts to ensure the following:

- Succession plans for all key areas and positions are developed;
- Key positions are filled quickly;
- New employees in key positions perform effectively; and
- Members of designated groups are adequately represented in feeder groups for key areas and positions

Treasury Board of Canada Secretariat. (2012). *Succession planning and management guide: For human resources professionals*. Retrieved from goo.gl/PqkT9U

The five main skills every successor should have:

This part of the unit looks beyond the specific technical knowledge of the business field, for an effective transition of the business – mainly to avoid intra-family conflicts.

Introduction

According to The Counseling & Mental Health Center at The University of Texas at Austin, the ability to successfully manage and resolve conflict depends on four key skills. Together, these four skills form a fifth skill that is greater than the sum of its parts: the ability to take conflict in stride and resolve differences in ways that build trust and confidence.

Conflict resolution skill 1: Quickly relieve stress

A brief description:

The capacity to remain relaxed and focused in tense situations is a vital aspect of conflict resolution. If you don't know how to stay centred and in control of yourself, you may become emotionally overwhelmed in challenging situations. The best way to rapidly and reliably relieve stress is through the senses: sight, sound, touch, taste, and smell. But each person responds differently to sensory input, so you need to find things that are soothing to you.

A practical example:

You enter an aggressive family discussion where other members of the family talk about a personal situation of yours and try to remain calm. Try not to overreact to difficult situations. By remaining calm it will be more likely that others will consider your viewpoint.

When you decide to talk try to be specific about what is bothering you. Vague complaints are hard to work on. Deal with only one issue at a time. Don't introduce other topics until each is fully discussed. This avoids the "kitchen sink" effect where people throw in all their complaints while not allowing anything to be resolved.

Conflict resolution skill 2: Recognize and manage your emotions

A brief description:

Emotional awareness is the key to understanding yourself and others. If you don't know how you feel or why you feel that way, you won't be able to communicate effectively or smooth over disagreements.

Although knowing your own feelings may seem simple, many people ignore or try to sedate strong emotions like anger, sadness, and fear. But your ability to handle conflict depends on being connected to these feelings.

If you're afraid of strong emotions or if you insist on finding solutions that are strictly rational, your ability to face and resolve differences will be impaired.

A practical example:

Think of a situation that was uncomfortable for you during a business meeting with a member of your family, and try to express your feelings in words, not actions. Telling someone directly and honestly how you feel can be a very powerful form of communication.

If you start to feel so angry or upset that you feel you may lose control, take a "time out" and do something to help yourself feel steadier.

Conflict resolution skill 3: Improve your nonverbal communication skills

A brief description:

The most important information exchanged during conflicts and arguments is often communicated nonverbally. Nonverbal communication includes eye contact, facial expression, and tone of voice, posture, touch, and gestures.

When you're in the middle of a conflict, paying close attention to the other person's nonverbal signals may help you figure out what the other person is really saying, respond in a way that builds trust, and get to the root of the problem.

Simply nonverbal signals such as a calm tone of voice, a reassuring touch, or a concerned facial expression can go a long way toward defusing a heated exchange.

A practical example:

Think of a situation that you experienced dishonesty and felt you were treated unfairly and try to verbalise your position trying not "hitting below the belt." Attacking areas of personal sensitivity creates an atmosphere of distrust, anger, and vulnerability. Avoid accusations. Accusations will cause others to defend themselves. Instead, talk about how someone's actions made you feel don't generalize. Avoid words like "never" or "always." Such generalizations are usually inaccurate and will heighten tensions.

Conflict resolution skill 4: Use humour and play to deal with challenges

A brief description:

You can avoid many confrontations and resolve arguments and disagreements by communicating in a playful or humorous way.

Humour can help you say things that might otherwise be difficult to express without creating a flap. However, it's important that you laugh with the other person, not at them. When humour and play are used to reduce tension and anger, reframe problems, and put the situation into perspective, the conflict can actually become an opportunity for greater connection and intimacy.

A practical example:

Make a funny profile of the situation (like a facebook layout: what you like, what you don't, when it started, what is thinking now etc.) and try not to stockpile. Storing up lots of grievances and hurt feelings over time is counterproductive. It's almost impossible to deal with numerous old problems for which interpretations may differ. Try to deal with problems as they arise.

Avoid clamming up. When one person becomes silent and stops responding to the other, frustration and anger can result. Positive results can only be attained with two-way communication and putting humour in the situation is a relaxing and safe way to overpass them

These four skills form a fifth skill: Managing and resolving conflict by learning how to listen

A brief description:

When people are upset, the words they use rarely convey the issues and needs at the heart of the problem.

When we listen for what is felt as well as said, we connect more deeply to our own needs and emotions, and to those of other people.

Listening in this way also strengthens us, informs us, and makes it easier for others to hear us.

A practical example:

Try listening to the other person's point of view, by using the following responses and assess if they are helpful:

Encourage the other person to share his or her issues as fully as possible.

• "I want to understand what has upset you."
• "I want to know what you are really hoping for."

Clarify the real issues, rather than making assumptions.

Ask questions that allow you to gain this information, and which let the other person know you are trying to understand.
• "Can you say more about that?"
• "Is that the way it usually happens?"

Restate what you have heard, so you are both able to see what has been understood so far it may be that the other person will then realize that additional information is needed.

• "It sounds like you weren't expecting that to happen."
Reflect feelings be as clear as possible.
• "I can imagine how upsetting that must have been."

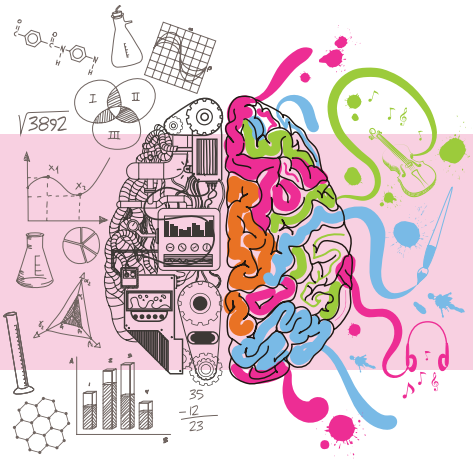
Validate the concerns of the other person, even if a solution is elusive at this time. Expressing appreciation can be a very powerful message if it is conveyed with integrity and respect.

• "I really appreciate that we are talking about this issue."
• "I am glad we are trying to figure this out."

Source:

University of Wisconsin, Madison

Train your brain



1. Business Succession Planning Workshop

The loss of valuable leadership can cripple a company. Business succession planning is essentially preparing successors to take on vital leadership roles when the need arises. It is essential to the long-term survival of a company. Every company should have a form of succession planning in its portfolio as it is not the expected absences that can cripple a company, but the unexpected ones.

Whether it is preparing someone to take over a position of leadership in a corporation, or the sole proprietor of a small business, Business Succession Planning will teach you the difference between succession planning and mere replacement planning. How you prepare people to take on the responsibilities of leadership so that the company thrives in the transition is just as important as picking the right person for the job.

The following plan of activities could be a group workshop or a one-to-one exercise:

Suggested Duration: 8 Hours

A brief description:

1. Define business succession planning and its role in your company

2. Lay the groundwork to develop a succession plan

3. The importance of mentorship

4. Define and use a SWOT analysis to set goals

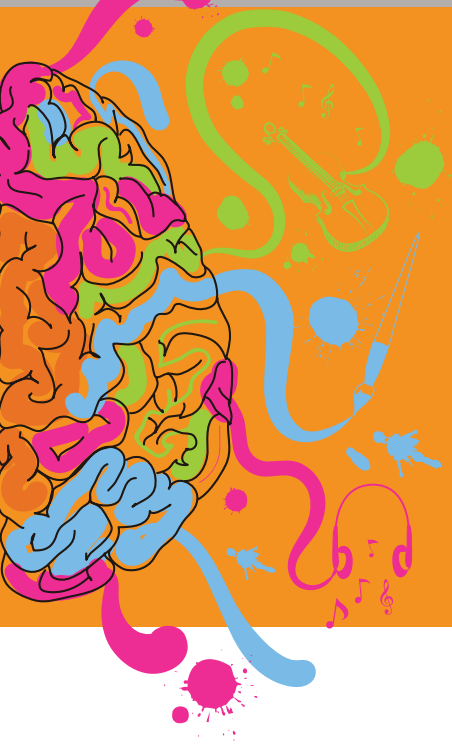
5. Create a plan, assign roles, and execute the plan

6. Communicate to develop support and manage change

7. Anticipate obstacles, and evaluate and adapt goals and plans

8. Characterize success

This project has been funded with support from the European Commission.
This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.



Food for thought
Websites, videos, and blogs links related to the topics:

http://www.forbes.com/sites/johnkotter/2013/10/14/the-reason-most-company-vision-statements-arent-effective/#4ddcc2ad1cfd
Your company vision: If it's complicated, it shouldn't be (Forbes, Oct. 14, 2013)
A short article on the importance of creating vision statements meant to be endorsed by the entire organisation.

https://www.executestrategy.net/blog/write-good-vision-statement/
How to write a good vision statement
An alternate methodology for the process of vision statement creation

http://www.thefamilybusinessleader.com/2015/05/31/clarifying-values-vision-and-mission-in-family-business/
Clarifying Values, Vision and Mission in Family Business
A short intervention for the clarification of the meaning of the concepts 'Values', 'Vision', 'Mission'.
The Family Business Leader

https://www.youtube.com/watch?v=a3KAswtouBo
A video about the importance of creating a shared vision. An interesting story of how the relationship of two brothers can be destroyed, even after 40 years of successful collaboration in a family firm, due to the lack of a shared vision.

https://www.tbs-sct.gc.ca
Succession planning and management is an essential component of broader human resources planning, and is key to delivery of Public Service renewal. Effective succession planning and management helps organizations to identify, develop, and retain capable and skilled employees in line with current and projected business objectives.

This guide will help you incorporate succession planning and management into your human resources planning process

https://www.bcgperspectives.com/
BCG's research sheds light on the extent to which poorly planned successions can harm revenues, market capitalization, and margins.

http://www.skillsportal.co.za
This site provides ideas for business training and workshops useful to business consultants or/and professional trainers

https://www.edcc.edu/counseling/documents/Conflict.pdf
Managing and resolving conflict in a positive way. Conflict is a normal, and even healthy, part of relationships. After all, two people can't be expected to agree on everything at all times. Since relationship conflicts are inevitable, learning to deal with them in a healthy way is crucial. When conflict is mismanaged, it can harm the relationship. But when handled in a respectful and positive way, conflict provides an opportunity for growth, ultimately strengthening the bond between two people. By learning the skills you need for successful conflict resolution, you can keep your personal and professional relationships strong and growing.

https://www2.deloitte.com/content/dam/Deloitte/us/Documents/Deloitte%20Growth%20Enterprises/us-dges-business-succession-planning-collection.pdf
This publication is a compilation of a six-volume series that addresses the broad range of topics that businesses owners need to consider in order to facilitate an orderly transition of management and ownership.

https://www.carltonfields.com/keys-to-effective-succession-planning-business-solutions/
Continuing the legacy of successful businesses, and especially privately owned or family owned businesses, is a key value and goal of succession planning. Owners of these businesses, however, who typically spend most of their days worried about gaining market share, hiring and retaining motivated employees, and outrunning the competition, usually fail to give succession planning any thought, much less seek advice about the subject.

http://www.skillsyouneed.com/ips/conflict-resolution.html
Conflict, or more specifically, interpersonal conflict, is a fact of life, and particularly of organisational life. It often emerges more when people are stressed, for example, when there are changes on the horizon, or when everyone is under pressure because of a looming deadline.

http://www.pwc.com/gx/en/services/family-business/business-transition.html
For a family business, transition is an once-in-a-lifetime decision. Perhaps no challenge has as much potential to exacerbate the special stresses—or, conversely, highlight the special advantages—of operating a family business.

Important bibliography:

1. Carlock, S, R. (2009). *Why the Best Family Businesses Plan*. INSEAD Working Paper, pp. 10-16. Retrieved from goo.gl/0X5cYb

Shared vision and planning within a methodological tool which suggests a Parallel Planning Process model for aligning the family and the business systems' thinking. The model facilitates communication about the business potential, as supported by family's investment of its human and financial capital.

2. Michael-Tsabari, N., & Lavee, Y. (2012). T*oo close and too rigid: Applying the Circumplex model of family systems to first-generation family firms*. Journal of Marital and Family Therapy, 38(s1), 105-116.

3. Aronoff, C. E., Astrachan, J. H., & Ward, J. L. (1996). *Family business sourcebook II : a guide for families who own businesses and the professionals who serve them : covering succession planning, growth, financial issues, management, psychological issues, women in the family business, the younger generation, and other issues family owned businesses face. Marietta*, GA: Business Owner Resources.

This comprehensive reference book includes articles from many leading family business advisors on a broad range of topics important to family businesses. Articles from advisors and business owners are organized into 17 topic areas ranging from succession planning to family conflict resolution.

4. Aronoff, C. E, McClure, S. C, & Ward, J. L. (2003). *Family Business Succession: The Final Test of Greatness Second Edition*. Marietta Ga: Business Owner Resources.
A short and readable introduction to the issues.

5. Cady, D. (2007). *Field Guide to Estate Planning, Business Planning, & Employee Benefits. Cincinnati*, OH: National Underwriter.

This guide is designed primarily for service providers. Therefore it is somewhat technical in presentation, but includes a number of excellent illustrations. It is an especially good resource for business owners who want to explore the alternatives more fully.

6. Cohn, M. (1992). *Passing the torch: Succession, retirement, and estate planning in family owned businesses*. New York: McGraw-Hill.
This is an excellent resource for business owners as they begin planning for succession. It is quite readable and provides solid explanations and charts of complex concepts. For business owners willing to take a little more time to learn about the process they are beginning, 'Passing the Torch' should be the first book they read.

7. Engel, P. (1999). *What's Your Exit Strategy?: 7 Ways to Maximize the Value of the Business You've Built*. Rocklin, Ca: Prima Publishing.

An easy-to-read book with lots of good examples.

8. Leimberg, S., Rosenbloom, M., & Yohlin, J. (1992). *The Corporate Buy-Sell Handbook: An Essential Guide to Business Succession Planning*. Chicago: Dearborn Financial Publishing.
This book provides a complete and detailed explanation of the many uses of buy-sell agreements and is designed, in part, for practitioners.

9. Leimberg, S., Kasner, J., Kandell, S., Miller, R., & Rosenbloom, M. (2006). *The Tools & Techniques of Estate Planning, 14th Edition*. National Underwriter Company.
This is an exhaustive guide to estate planning, and is also an excellent resource for succession planning.

Module 4:

Supporting the new business era

This module aims at training business consultants on supporting new leaders and managers (the new generation) to take over and effectively drive change to ensure successful business transfers. Business consultants will be trained in facilitating a good transition management following a smooth, gradual, well-controlled business transition in phases according to the succession plan while addressing emerging challenges on the way.

This project has been funded with support from the European Commission.
This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Supporting successors & implementing change

After this unit, you should be able to:

- Give better advice to successor(s) regarding issues such as: how to enter and manage the business leadership and ownership role.
- Earn the respect of the business clients, peers, employees, as well as the respect of involved family members.
- Deal with changes at personal, professional, and family levels; etc.
- Support successor(s) in effectively introducing change.
- Integrate a new vision (where relevant).
- Implement new business models, working culture and methods, rules, human resource management
- Monitor success and reframing if and as needed

Unit 1+2:

Support techniques for implementing change:

The first part of this unit focuses on two techniques that help support successors to implement the change and to integrate the new visions of the business. These techniques include specific indicators to explain how they work and to measure the "change" in a business.

Lifeline

A brief description:
Lifeline is a simple and yet very 'revealing' exercise which can help a successor touch base with visions and representations of how he/she is conceiving things within a family business. This in turn will help in coming up with certain actions towards satisfying certain aspects of this vision which involve change or rearrangement of things as they are now, or as they are envisioned to be in the mid- and long-term throughout a time-span of 15 years. A simple template offers itself to be filled out with text, symbols, sketches, whatever represents in the best possible way the imagination of the 'author'.

The family, the business, and the other persons involved (extra- and intra-family) are considered as reference points, with the aim to put things in perspective, decide on actions to be taken, and monitor/evaluate results in the mid- to long-term.
The tool is supposed to be deployed by the new owner, however, in a separate phase it can be also used by family members or partners, as well as business partners, existing ones or those to come along throughout the years. Thus, it is a dynamic log for the family firm, and it is recommended that various media beyond text (image, drawing, sketch, numbers etc.) should be used. The log should be revisited and commented upon by the author or the authors in terms of a self-reflection process.

Source: http://fromsuccesstosuccession.com/library/pdf/Lifeline.pdf

The technique visually:

See the attached file.

A practical example:

> A trial test could be easily made by any current member of the family firm, be it the former owner, a family member working in the company, or the successor. It would be challenging to compare input afterwards.
>
> Following this, a family member not working in the family firm could also try to fill out the template and then compare conditions and actions to be taken (last column) with those inserted by the business owner or the new successor.
>
> A transgenerational test could be done, allowing input from senior and next generation members in general and then compare and discuss results, com-

menting on visions, wishes, plans, fears, imagination.

A test on the basis of gender and irrespective of position and involvement in the family firm could be done also, to explore gender dynamics and how they construct representations and wishes for the business and the family in the short- mid- and long-term.

A final testing mode could be allowing the family business consultant to discuss the filled out table (in one or all of the above mentioned tests) with the family business owner and other members of the family, or even external stakeholders.

Appreciative inquiry

A brief description:

Appreciative Inquiry is focusing on all that makes an organisation successful, rather than on problems to be solved. The core question of the appreciative approach is 'What is that, which we as a company would want more of?' and not 'What is the problem that we urgently need to solve?'. By approaching the company reality this way, change is envisaged as positive intervention rather than conflict with past structures, attitudes, norms, and values, although these can be the subject of change in the long run. The approach is thus directing ambitions, and prompts others to follow these ambitions. This is extremely helpful for the successor in a family firm, since in this way they can introduce change as something built on all those aspects of business that are the most positive and with which the company and its people are familiar with.

The main difference between a traditional problem solving approach and the appreciative approach is that Appreciative Inquiry in particular is working towards discovering possibilities and depicting or designing possible positive futures building on positive aspects of past and present, whereas problem solving works more or less in a linear fashion of defining a problem (therefore pre-empting any positive thinking attitude in the first place), naming then the causes, brainstorming solutions and implementing the best solution most probably at the end of the sequence.

Appreciative inquiry involves three components when practised:

1) Discovering past successes: Here, a single actor, e.g. the family business successor, or many actors, e.g. family business members, employees etc., identify and write down past and present successes. These successes take the form of a 'best of' collection, naming along the way events and persons within or beyond the family, former family business owners, even customers and various stakeholders if appropriate. The aim is to come up with short success stories that could focus on different areas and aspects of interest in the organisational culture of the company, e.g. leadership stories, team dynamics, etc.

2) Generating insights: This is about providing possible explanations with respect to

why these successes occurred in the first place. Again, the successor, the transferor, family business members, employees could provide input here as well.

3) Reinforcing the 'best': Following the identification of those elements which are responsible for the successes, the proper dues to the persons and personalities involved including former owners, employees, family members active or even non-active in the everyday life of the family firm should be paid. This component is the starting point to unfold the plan of the successor not in a move to face problems, to just change how things are, or to fight again established structures, but rather in a move to amplify what works, having won the consensus and respect from both the senior generation and the human capital of the firm.

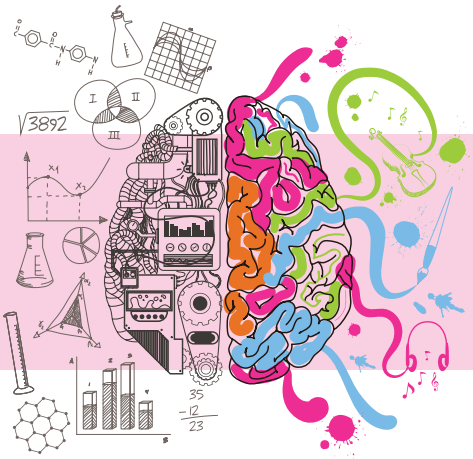
Source: http://www.jpconsultantsinc.com/appreciative_inquiry/appreciative-inquiry-and-problem-solving.php

A practical example:

> A family business successor could follow a simple process of appreciative inquiry filling out the following table. It is recommended to write down in the Descriptions column certain aspects for each phase as they come into mind using simple sentences. No breakdown into areas should be followed here, e.g. best of 'what is' in terms of management structures, or financial data. Technical jargon and vocabulary should also be avoided. The descriptions should be the product of open thinking, involving emotions and practical reasoning (goal-directed reasoning on behalf of the author(s)) at the same time.

Important:
The technique can be exercised in parallel with the 'Lifeline' technique as described. Whereas the Lifeline technique documents wishes, plans, and visions, in the short-medium- and long-term, considering conditions and actions to be taken, the Appreciative inquiry process works towards the same direction on the basis of identification and amplification of positive aspects and success element, securing consensus for the new management visions and plans, respect, and acceptance of new leadership structures, by minimising conflict with past structures and values. At a further level, the 'what should be' and 'what can be' steps of the Appreciative inquiry process can be monitored through the Lifeline tool throughout time.
Both tools can serve as valuable companions during the next succession phase within the family firm, as a reference point encompassing various aspects of the family firm history (successes, persons, actions, plans, visions, failures, interventions, etc.), during turning point in management and ownership.

Train your brain



1. Juxtaposing traditional Problem solving and Appreciative inquiry approaches

A brief description:

Successors as the new leaders in a family firm often have to work hard in order to gain respect from the former owner of the senior generation, as well as from the family members working in the family firm, the family members and relatives who are not active in the family firm, the extra-family employees and managers, the customer base and the stakeholders in general. As stressed throughout the description of the Appreciative inquiry technique, this can be better achieved by deploying practices which praise past successes and at the same time avoid conflict and open confrontation with past and present structures, persons, values.
In order to highlight the appropriateness of the technique, consultants could use a real situation based on something he/she has experienced or knowledge, referring to a transfer process where a new owner/manager had to work his/her way towards implementing the change and gaining respect from the company's human capital. Ideally, this should be a family business transfer case within the family, but any business transfer case could be used. Once the story is recalled, a consultant or a group of consultants could start breaking down the selected case, and identify what they know about the process. In this way, they can create a process of activities and overall approach to this specific case. The consultant(s) could then decide on which of the two approaches the transfer case process belonged to i.e. the traditional Problem solving or the Appreciative Inquiry approach. The following table can be used towards this end:

Problem approach	Appreciative approach
∞ Identification of Problem ∞ Cause ∞ Solutions ∞ Planning and treatment	∞ 'what is, and what are the best aspects' ∞ 'what might be' ∞ Discussing 'what should be' ∞ 'what can be'
Overarching approach: Organisation (and in this case business transfer) as problem to be solved.	Overarching approach: Organisation (and in this case business transfer) as something to be explored on the basis of how the best
	aspects can be safeguarded and amplified.

Overarching approach: Organisation (and in this case business transfer) as problem to be solved. Overarching approach: Organisation (and in this case business transfer) as something to be explored on the basis of how the best aspects can be safeguarded and amplified.

Depending on the approach utilised in the case at hand, the consultant(s) could provide a concise scheme of what would the case look like if the opposite approach was to be deployed, summarising on the main aspects/steps for each approach respectively.

This project has been funded with support from the European Commission.
This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Building structures for success for future generations

After this unit, you should be able to:

- Address the concerns of family businesses interested in being well prepared for a future succession/transfer.
- Deals with issues such as early next generation (NXG) engagement
- Be able to support to NXG to have a better understanding of the family business system, of which you form part of, and to ensure that you are well prepared to consider and support a career in the family business, etc.

Unit 3

Understanding differences in generational commitment:

The main aspects of this activity focus on the ability to understand the next generations' commitment, especially the motivating reasons behind the decisions that the next generation members make when pursuing a career in their family's firms.

Working around and against 'assumptions'

A brief description:

It is often the case, that all of us when thinking of our future - of what should be done, when, how, by whom – we rely a lot on assumptions. In the world of family businesses, assumptions about the future of the business go hand in hand with assumptions about the interest of family members in taking over the business, which more than often are also assumptions about personality, inclinations, strengths, and weaknesses of the potential successor that have been left unquestioned and unverified for a long time.

The owner (especially in the case of a parent) assumes that children will not be, or are not interested in taking over the business; or in a similar way assumes that they - or just one or two of them, if they are more than one - are indeed interested, just because…well…they assume so! Prospect interest or non-interest is in this way, by and large, projected and constructed rather than explored. Eventually, the prospect successor will comply with the expected role. This 'model' works of course the other way around as well. Prospect successors within the family – sons, daughters, relatives, etc. – are also often manipulated by assumptions about what the senior generation schemes and dreams about the future of the family firm.

How is then a 'business' family' dealing with those assumptions? How is the family firm discussed and represented at home? How are employment and ownership represented at home? As opportunities for self-fulfilment, goals to be achieved and dreams to be fulfilled, or as stressful and even boring, annoying duties? How often, if ever, are open discussions initiated on this issue, and how clear are visions, expectations and intentions communicated throughout the years?

Assumptions are tentative by nature. Next generation's commitment and motivation in pursuing a career in the family firm can be seriously distorted or even thwarted if assumptions prevail as factualities! Furthermore, when succession time comes, in any way possible, for example as planned, or forced due to death or illness, etc., assumptions can of course potentially hurt the business itself and above all the interfamily relationships and equilibrium.

Taming authority

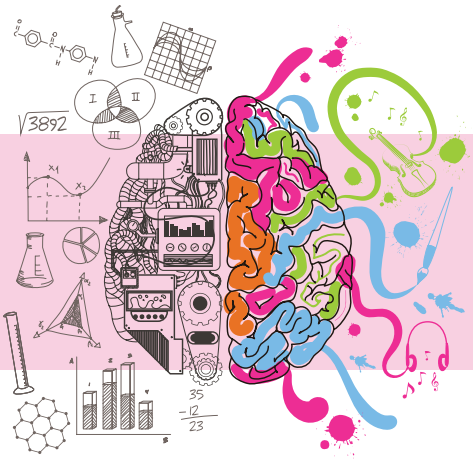
A brief description:

Unquestioned authority from the senior generation as a mode of doing things in the family and the business realm is blocking commitment, engagement, and genuine interest of the next generation in the family enterprise and its future. The way the senior generation is managing authority not only in the business, but also within the family relationships at the interpersonal level is crucial. If a family firm owner wishes to count on family members as potential successors, he/she should give decision-making authority at a participatory level early on. This is not as easy as it seems, as there are certain dynamics involved which affect the family as a business family and the other way around, the business as a family business. For example, to a great extent, different attitudes and practices in exercising authority 'at home' and 'in the firm' would lead to confusion and eventually communication breakdown between the senior and the next generation.

Taming authority should be clearly differentiated from weakening leadership! A good way to tame authority is to secure open and transparent communication by including for example next generation family as well as non-family members working in the family firm in company meetings. Next generation members – as prospects for taking over the family business – can be then assigned with certain tasks/assignments, and be encouraged to come up with not only their own positions on identification of possible opportunities, but also on weaknesses or threats for the company, followed by some strategic suggestions. The family business can this way be transformed to a real joint project where authority is questioned, responsibility shared, and leadership nurtured.

This project has been funded with support from the European Commission.
This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Train your brain



1.Creating 'what if' scenarios

A brief description:

Think of a real situation, from your own experience or from a case you know about, where a pivotal decision or family 'project' should be attended by the family members, where the senior generation had the 'leading' role in consulting the next generation about the right way to go about the issue. The 'issue' could be for example the discussion of 'what's next' after secondary school for the kids, a career choice for the next generation, even a plan to get married and settle down in own home. Choose a situation where the outcome was to some extent a 'bitter' one, or at least not satisfactory for all who were involved. Work retrospectively and do your best to think about the details and all the nuances and discussions on the issue, as well as the roles, the attitudes of all involved parties.

Try to write down 3-5 keywords or short sentences that you believe were responsible for the outcome at hand: the 'guilty' factors. Then, take a piece of paper and make three columns; one with the heading 'Assumptions', one with the heading 'Training', and one last with the heading 'Authority'. Within each column draw two separate columns with the headings 'Me' and 'The others'. Try now to group the keywords or sentences – the ones you just wrote down – under each main heading, i.e. Assumptions, Training next generation, Authority, and sub-headings 'Me' and 'The others' respectively. It can be the case that in certain aspects you or the others have succeeded to tame for example authority or fight assumptions. In that case write down 3-5 keywords or sentences and put them as well next to the other keywords and sentences; the 'guilty' ones. Go at this point through the descriptions provided above once more in order to get some help in adapting the situation to what has been described in the text above about the aspects of next generation's commitment.

When you are done with this you will have in front of you a table showing how these aspects as described above, when poorly attended can harm a family project as a joint project. You can now easily draw 'what if' scenarios by thinking about the potential ways under each aspect that could have secured a much better outcome. 'What if' clauses could be for example: 'What if I had really tried to challenge the assumption that my daughter was never interested in dealing with numbers and mathematics? How was this assumption justified really?' or 'What if I had openly discussed with my son professional prospects of him wanting to be a dancer?' or 'What if I had

deployed a standard procedure within the family when a decision was to be taken, sharing responsibilities, assigning tasks, voting, and expressing opinion on strengths and weaknesses?'

These 'what if' clauses should then be the building blocks for your argument and intervention when consulting family businesses in how to gradually build robust structures to secure future generation's commitment to the family firm as a 'family project' in the first place. Working through an example of your choice as an allegory or case-study, you can show the important role of Assumptions, Education and training of the next generation about a family issue, and Authority, as aspects that should be managed by both generations from early on. The future of the family firm would then be the area to adapt and apply the 'What if' scenarios practice. A consultant could work with family business owners and family business members using this practice, in terms of an intra-family self-assessment project, to yield interesting results of how to best plan family business succession in particular by attending non-technical aspects of the transfer process.

The aim of the technique lies in challenging and prompting self-reflection, especially during the phase where certain things having gone wrong are categorized under their respective poorly attended and managed 'springboard', i.e. the aspects Assumptions, Education and Training, and Authority. Instead of using a family issue based on one's own experience, a real family business issue can also be used in applying the practice. Family issues have been however chosen here as prospect case-examples because they are, probably, available to a greater extent.

This exercise can be also done among a group of consultants, where each consultant can express opinion on the categorization process of the 'guilty' factors, or the creation of the 'what if' scenarios. At another level, more than one consultants could go through the exercise using own cases-examples and then comparing aspects, 'what if' scenarios, and 'good practices' i.e. well attended practices in taming authority or fighting against assumptions.

Food for thought
Websites, videos, and blogs links related to the topics:

Applying Appreciative Inquiry Instead of Problem-Solving Techniques to Facilitate Change
An introduction to the basic philosophy of Appreciative Inquiry vis-à-vis Problem solving technique
http://www8.esc.edu/ESConline/Across_ESC/Forumjournal.nsf/web+view/5A8D-486A2C5F9B0E852568FD00561F17?opendocument

Managing change toolkit: Appreciative inquiry (by Family Business Consulting group blog)
A concise article justifying the appropriateness of appreciative inquiry for managing change in family businesses.
http://blog.thefbcg.com/managing-change-toolkit-appreciative-inquiry-part-3-of-4/

Family Business Succession: Is The Next Generation Ready To Lead? Avoiding succession strife amid generational transitions (Copyright © 2015 Hemenway & Barnes LLP)
Concise article about managing succession planning at the face of intra-family relationships balance, considering succession as '…a multi-year, evolving process of education and change….'
http://hembar.com/uploads/1280/doc/Family_Dynamics_March2015.pdf

Video: Family business succession as a project involving pro-activeness, collaboration, communication on behalf and between senior and next generation.
Consultants could consider this statement by a fellow consultant about what matters when planning succession within the family.
https://www.youtube.com/watch?v=pMtYPgU_LeI

Comments: Automatic subtitles in English are available with some mistakes, however, without jeopardising the comprenhension of the main points stressed. American accent is used; low to medium level of English language mastering needed.

Extracts or quotations from reports, literature and other sources that added value:
"Many people go fishing all their lives without knowing that they are not really looking for fish," - Henry David Thoreau
(to be used for Units 1 & 2 and especially the Appreciative inquiry approach)

"Each generation imagines itself to be more intelligent than the one that went before it, and wiser than the one that comes after it." - George Orwell
(to be used for Unit 3)

"Preparation is a lifelong process that starts as soon as the child becomes conscious of the activities of the adults around them. Work habits, attitudes toward the business, values, and relationships all take root in the soil of childhood and are formed over the years, long before successor development begins in any formal way." ("Preparing Successors for Leadership" book by Craig E. Aronoff and John Ward, Palgrave MacMillan, 2011.)
(to be used for Unit 3)

Important bibliography:

Family businesses - Passing on the crown
More family firms are facing up to their biggest problem: avoiding a crisis as the business passes from one generation to the next.

Excerpt to drive interest: '…Family firms combine all the tensions of family life with all the strains of business life, and at no moment do both sorts of stress combine so forcefully as at that of generational change'.
http://www.economist.com/node/3352686

Bushe, G. R. (1998). Five theories of change embedded in appreciative inquiry. Paper presented at the 18th Annual World Congress of Organization Development, Dublin, Ireland.

Excerpt to drive interest: '….Recently I had a group of Executive-MBA students use appreciative process to create a change in any social system they chose. We were all blown away by the results. For example, one manager's "problem person" became his star employee when he looked for examples of her being a star. Another manager's conflicted and competitive team became a cohesive, cooperative unit when he looked for examples of cohesion and cooperation. Those using it with spouses or children felt that major positive transformations had occurred in their families'.
http://www.gervasebushe.ca/ai5.pdf

This project has been funded with support from the European Commission.
This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Authors:

Carmen Osuna, Claudia Neiman, & Marina Manzano
Fundacion General Universidad de Granada Empresa

Daniela Ilcheva
Yambol Chamber of Commerce and Industry Association

Plamen Todorov
Business Information and Consulting Centre Sandanski Association

Veronica Stoilova, Ani Atanasova, Raya Madgerova & Nikolay Marin
South-West University Neofit Rilski

Kyriakos Lingas
Militos Consulting S.A.

Katerina Vasileiou
Knowl Social Enterprise for Education and Lifelong Learning

Tatiana Rizopoulou
North Tree Ltd.

Tobias Daniel Van Der Neut & Joern Block
Universität Trier

Mike Economou
R&Do Limited

This project has been funded with support from the European Commission.
This publication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.