



THE SUCCESSFUL SUCCESSOR

DEB HOUDEN

Senior Consultant,

The Family Business Consulting Group

The Successful Successor

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Deb Houden, Ph.D.
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Today's objectives are:

- To get you thinking
- To inspire you to think long term
- To provide knowledge, tools, and resources
- To give immediate steps to take
- To answer questions you might have

It's not that easy!



What are they passing?



What keeps YOU stuck?

➔ Personal financial security

➔ Family security

➔ Organizational security

➔ Psychological security

“Begin with the end in mind”

Steven Covey

- Do I want to pass this down? To whom?
- How do I want to be remembered?
- What does my spouse/significant other want?
- How much is my business really worth?
- How much money do I need in retirement to feel secure?
- What dreams are still out there for me?

Two Parts to an Exit

- Leadership succession
- Ownership succession



Leadership Succession

- What does the business need in a leader?
- What are the responsibilities?
- Who is capable?
- Do employees respect that person?
- Have a 3rd party interview key employees
- Don't be a referee



Leadership Succession

- What is a fair process for selecting a family member?
- What development is needed?
- Let them show you they're capable, not a clone

Successor(s) Development

- **Autonomy – their own position**
- **Goals with objective feedback**
- **Responsibilities/Accountability**
- **Incrementally escalating challenge in successive roles**
- **Mentor(s) either in the company or outside**



What Successors Say to Parents

- Provide experience outside the job description
- Make me get outside experience
- Find a way to provide good feedback
- Be a respectful mentor



What Parents Say to Successors

- Go for it – take some risks
- Take pains to know yourself
- Expand your scope of responsibility
- Be patient
- Show that you believe in compassion





Hazards

- Children become frustrated and/or bored
- Children become angry and possibly alienated from you
- Creates conflict within the family
- Employees are confused
- **Business begins to suffer**



Junior stumbling blocks

- **Entitlement**-the expectation that the next generation deserves what the parents have.
- **Fairness**-the expectation that parents should treat each sibling equally.
- **Perfection**-the expectation that the parents should take all the initiative and provide all the wisdom in letting go.
- **Responsibility**-the expectation that parents should straighten out conflicts among the offspring.

Ownership Succession

- Who can own?
- Keep in family or sell in open market?
- How much money will I (we) need?
- Do you have to work there to own?
- Shareholders agreement

Financial Independence

- Funding from:
 - Assets & investments outside the company
 - A transaction with the successor
 - Some of both



Contingency Plans

- Liquidity
- Buy/sell
- Stock redemption
- Asset distribution



Transition Steps

1. Owner/Family Commitment and Communication
2. Develop/Update Strategic Plan
3. Commit to Time Horizon
4. Develop Financial/Estate Plans
5. Evaluation/Selection of Future Management Team
6. Grooming/Mentoring, etc.
7. Announcement
8. Empowerment
9. Transition



Options

- Board role
- Research and development
- Start an ancillary business
- Office move
- Mentor program

Keys to Success

Senior

- Set standards
- Integrate new from the successor CEO
- Take time away from leadership
- Actively and intentionally plan for your post-retirement life

Junior

- Apply yourself
- Demonstrate openness to the wisdom of experience
- Manage your emotions
- Invest in your relationship

Juniors need to

- **Appreciate** that their parents are not perfect;
- **Accept** parents for who they are...with respect...and love;
- **Understand** that life isn't fair; and
- **Assume** personal responsibility for their own life, security, and identity.

Get it down in writing!

- Shorter is not as overwhelming (think bullet points)
- Fire drill
- Shareholders Agreement
- Who has high potential?
- Who will choose?
- Criteria for choosing?
- Where are the gaps?

Record your planning meetings!

Best practices

- Clear roles and responsibilities
- Communicate expectations early and often!
- Current generation **MUST** initiate and support the process
- What's your goal? Protect the golden goose or to promote mediocrity?
- Develop a fire drill
- Respect and encourage individual strengths and choices

Go tell it on the mountain. . .

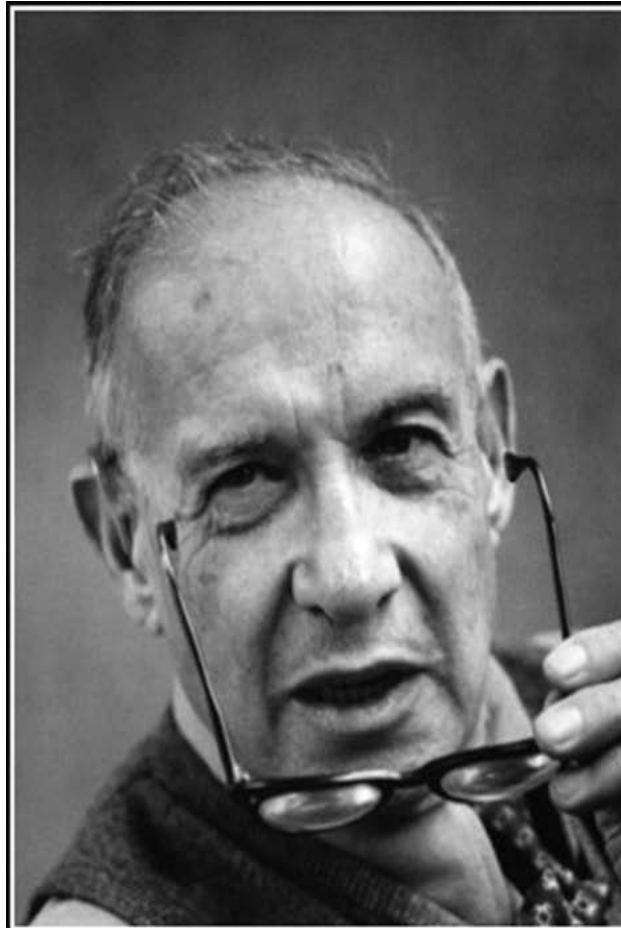
- Start with family
- Then company (put your stake in the ground)
- Praise those who've made it worth passing
- Make sure to emphasize the process and goals
 - We will be thorough and fair
 - Our goal is to choose the leader or team. . .

Give yourself time, and then more time

- 3 years
- 5-7 ideal (but probably not realistic)
- You decide, they shadow
- You both decide
- They decide, you shadow

Successful Transition

- Happiness with how you spend your time
- Comfort and security of income and finances
- Pride in accomplishments – family, business, community
- Fulfilled, rewarded – family and it every other way



The final test of greatness in a CEO is how well he chooses a successor and whether he can step aside and let the successor run the company.

— *Peter Drucker* —

AZ QUOTES

Questions?