



**IFB** Research  
Foundation

FAMILY BUSINESS CHALLENGES

**No. 5**

# **PLANNING SUCCESSION**

Practical guidance for family business owners and managers

SECOND EDITION

### Section 1. INTRODUCTION

**Transferring ownership and management of a family business to the next generation is complex.** Some owners regard succession as simply a question of handing over a tried and tested way of running the business from one generation to the next. In fact, succession triggers a system change – a transition to a different business structure with a distinctive culture, a fresh approach to entrepreneurship (see Exhibit 1) and evolving ground rules.

#### Exhibit 1: Maintaining entrepreneurship

“The development of companies requires vitality, the ability to undertake ventures. The creation of a business is the development of an entrepreneurial project, and one generation’s project is unlikely to be viable during the next generation. This has been a common mistake: to think that one generation can carry on the project of the previous generation by simply increasing efficiency. In other words, doing the same, but better. This is why entrepreneurship is the foundation on which succession must rest.”  
*Source: Alberto Gimeno, Gemma Baulenas and Joan Coma-Cros (2010) Family Business Models: Practical Solutions for the Family Business, Palgrave Macmillan, p.55.*

#### Emotional factors can make the challenge especially hard for seniors:

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

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

**The best transitions are organised as a process (not an event), supported by inter-generational teamwork.** Planning cannot start too early (see Exhibit 2 on beginning the “succession conversation”). Seniors and the next generation should act in partnership to build the methodical approach needed to overcome all the forces that favour doing nothing. In the best transitions:

- Seniors view succession as a positive step (a new kind of goal – see Exhibit 3).
- Retirement is to a new role, not from an old one.
- Seniors let the next generation know they will be welcomed into the business, but not coerced.
- The next generation play a constructive role in seniors’ retirement, helping them to discuss their hopes and fears.
- The board, including non-family directors, and trusted senior managers play important roles in the succession process.
- Both generations take advantage of outside support, including from family business advisers.

## Exhibit 2: Starting the succession conversation

Ideally each generation should be at the age and career stage to make the personal changes in their lives that are at the heart of succession planning. The following questions help both generations ease into the conversation by increasing their mutual understanding. Each generation should ask:

1. What do I enjoy about my current stage of life and career?
2. What do I find tough or dislike?
3. What would I like to ask the other generation?
4. Is there any advice I would offer them?
5. What do I think the other generation are concerned about, given their age and stage?
6. How do I think they feel about the succession process?

Source: Ken McCracken, Head of Family Business Consulting, KPMG LLP (2016) *The Succession Conversation* – adapted from a presentation at the IFB National Conference, London, 9–10 June.

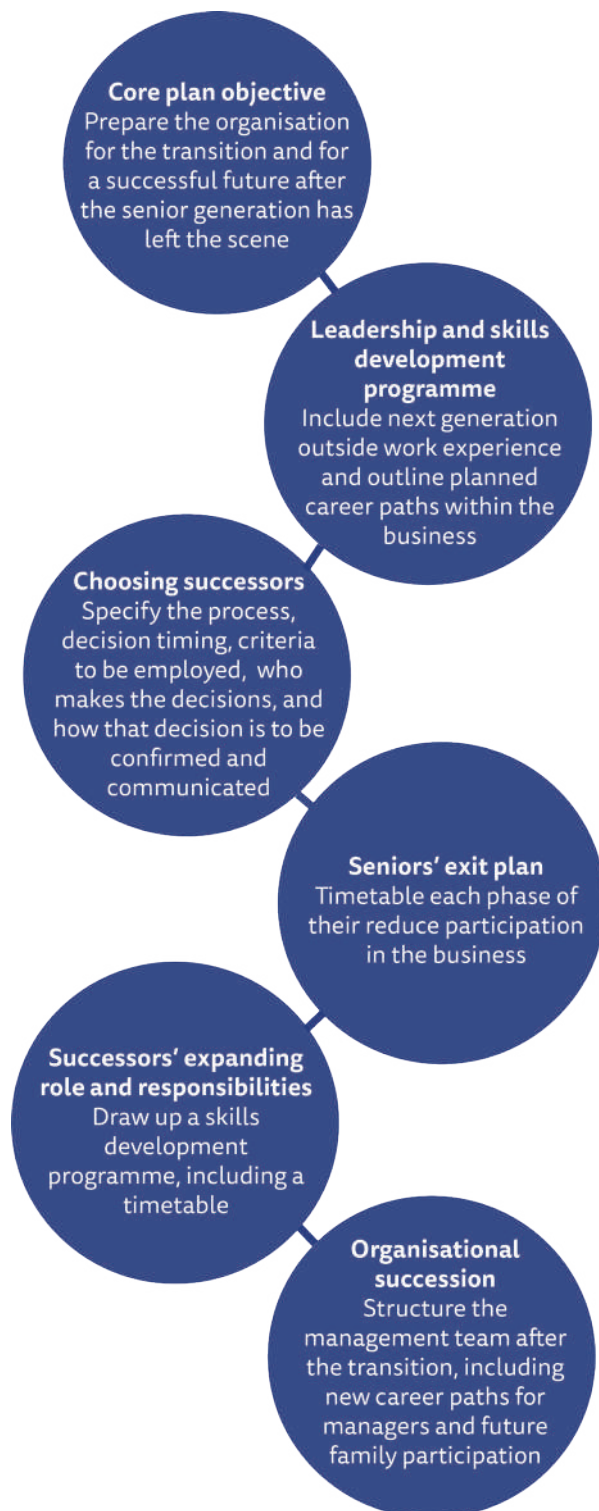
## Exhibit 3: A new kind of goal

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

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

**Document the succession plan.** Succession plans must be written down to help remove assumptions, guesswork and vagueness (see Exhibit 4).

## Exhibit 4: A written succession plan as a minimum should cover...



**Well-planned management succession can improve performance.** When filling positions, including choosing new leaders and senior managers, the selection criteria should be merit-based.

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

**Promote evolution over revolution.** Succession is a predictable and natural process in the life cycle of individuals, families and their businesses (see Exhibit 5). Once families have decided on their priorities, then careful planning, preparation and implementation will help to prevent psychological forces stirring family conflict.

### **Exhibit 5: Succession – the final test for a family business**

“Succession is a lifelong process that integrates the development of the family and the business. As families prepare for succession, they learn how to interact in constructive ways in order to take responsibility for the business, and their family’s wealth, in the next generation.... The main issues of succession relate to ownership. While family values are the fundamental glue, the decisions on who should participate in ownership and how ownership is structured will determine the future of the family business. Leadership follows ownership and has to fulfil the requirements set by the owners’ goals.”

*Source: Denise Kenyon-Rouvinez and John L. Ward (2005) Family Business: Key Issues, Palgrave Macmillan, pp.71–72.*

## **Section 2. ACTIONS TO CONSIDER**

- Do the generations of our family have a collaborative relationship and mutual understanding about the succession challenge, or is more work needed to achieve alignment on goals?
- Have fundamental strategic issues been discussed, including whether our business should stay family owned?
- Are members of the next generation ready, willing and able to take over ownership and management?
- Does our family have an agreed and documented succession plan?
- Have lessons been learned from how our family identified and prepared past leaders?
- Are there appropriate training, development and transition programmes in place for next generation leader/s?
- What would happen and who would take over if our family business leader was incapacitated tomorrow? Do we have contingency plans?

### **Add Your Questions**

## CASE STUDY: Wates Group



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

In 2006–08 the family passed through a complex transition from the third to the fourth generation (4G), based on planning that had begun back in the late 1990s. “My advice would be to make succession planning a continuous process,” says retired group chairman, Andrew Wates: “Indeed, we’ve already opened a dialogue with youngsters in the fifth generation. The three key ingredients of a successful transition are timeliness, dialogue and fair process.”

There’s a compulsory retirement age at Wates, but the family’s innovative approach to 4G succession was based on the senior generation “progressively stepping back rather than stepping down” – which in Andrew’s case centred on relinquishing his responsibilities as family chairman and taking on a leadership role at the company’s charitable foundation, Wates Giving.

Detailed succession planning at Wates was based on empowering the next generation, involving psychometrics, working up individual development plans, team-building and coaching – all supported by outside advisers. At the same time, and adding extra complexity, the family was moving from a managing-owner to a governing-ownership role in the business, with Paul Drechsler appointed in 2004 as the group’s first non-family CEO – a role he combined with that of group executive chairman from April 2006.

Wates succession: Andrew Wates (second from right) with family shareholders, including Chairman James Wates (centre front).

As well as driving business growth, Paul encouraged the family to reflect on its role in the business and also helped to smooth the transfer from the third to the fourth generation. His appointment provided continuity, and created time and space for 4G owners to advance their own experience and careers outside Wates. One of his remits was to create options for the appointment of a family chairman, and in 2013 the family elected James Wates into that role.

By 2014, when Paul Drechsler left the group (to be replaced as CEO by Andrew Davies, another highly respected non-family manager, formerly of BAE Systems), revenue and profitability had doubled, and the governance structure defining family and executive responsibilities was in place. With the family responsible for setting high-level superordinate objectives to guide group operations, a single board was created with all three branches of family shareholders represented. The board consists of a family chairman, two executives, three non-family non-executives and four family non-executives.

Looking ahead, guidelines for engagement with 5G have been agreed and circulated to them, reflecting the family’s ambition to be world class governing owners, and to pass on a business with a sensible risk profile and appropriate governance policies in place.



## Section 3. RESOURCES

### Articles and reports

#### The Succession Conspiracy

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

This classic paper explains the forces that come in to play during transitions. Lansberg explores the main factors that interfere with succession planning and suggests ways in which these barriers can be constructively managed.

#### An Evaluation of Key Determinants Preventing Intra-family Business Succession

Archie Lockamy III, Charles M. Carson and Franz T Lohrke (2016), Journal of Family Business Management, 6(1), pp.64–80.

An academic (although practical) study aiming to identify the key determinants inhibiting and sometimes preventing intra-family business succession. The main factors are identified, and the authors suggest managerial actions designed to improve the probability of intra-family business succession.

#### The Succession Task Force: A Tool for Managing Challenging Times

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

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

### Books

#### Family Business Perspectives: Succession

Published by the IFB Research Foundation (2008).

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

#### Family Business Succession: Your Roadmap to Continuity

Kelly LeCouvie and Jennifer Pendergast, published by Palgrave Macmillan (2014).

The first comprehensive guide to succession planning in family companies. The book analyses the challenges associated with succession, and discusses the key ingredients when planning for business management and ownership continuity.

#### Family Enterprises: The Essentials

Peter Leach, published by Profile Books (2015).

See in particular Chapter 8, “Managing Succession: The Leadership Challenge”, explaining why preparation and planning for succession are so difficult.

#### Family Business Succession: The Final Test of Greatness

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

A broad-based, accessible source of practical advice.



## Family Business Challenges

The Family Business Challenges second edition series includes 18 guides overing three areas:

### Family business dynamics

- No.1 Understanding Family Business
- No.2 Maintaining Family Values
- No.3 Developing Stewardship
- No.4 Engaging the Next Generation
- No.5 Planning Succession

### Family business governance

- No.6 Building Family Governance
- No.7 Managing Differences
- No.8 Fostering Responsible Ownership
- No.9 Strengthening Family Communication
- No.10 Professionalising the Board
- No.11 Enhancing Communication with the Board
- No.12 Employing Advisers

### Family business management

- No.13 Fostering Entrepreneurship
- No.14 Embedding Long-term Orientation
- No.15 Promoting Sustainability
- No.16 Maximising People Capital
- No.17 Branding the Family Business
- No.18 Selling the Family Business

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**Grant Gordon, Editor in Chief.** Grant is a trustee of the IFB Research Foundation and co-founder of the Institute for Family Business. He is co-author of *Family Wars* (Kogan Page, 2008), focusing on managing conflict in family firms.

**Simon Perry, Author.** Simon is a law graduate and trained as a barrister. He moved into publishing in the early 1990s. His work focuses on family businesses, writing academic and practitioner analyses and family enterprise histories.

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