SUCCESSION PLANNING IN FAMILY-OWNED BUSINESSES: GLOBAL INSIGHTS AND TRENDS

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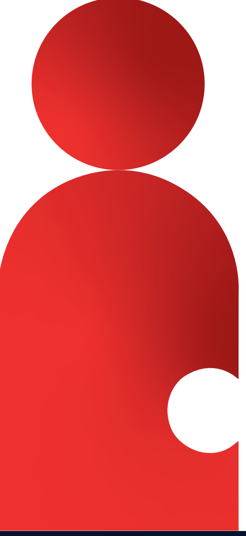
FOREWORD

By Sonal Agrawal,
AltoPartners Global Chair;
Managing Partner Accord Group India /
AltoPartners India and AESC Global Board Member



Even in the age of globalisation and corporatisation, family businesses make up a significant percentage of the world's economies. At AltoPartners, we are privileged to count an appreciable number of family-owned businesses as valued clients across the 35 countries in which we operate. Over the decades, we have served family-owned businesses, ranging from robust, medium-sized companies to large conglomerates with a net asset value of several billion dollars. Our partners have conducted thousands of searches for board members, CEOs and CXOs, and during these partnerships, we have spent countless hours with business owners and key stakeholders, discussing strategic and growth issues.

We also get called in to help them to solve what can be a sensitive and nuanced issue – succession. While not always as dramatic as the eponymous ***TV series***, what makes these searches unique are the emotional dynamics involved, particularly when it's the founder who is stepping down, and there are choices to be made between family members and professionals, or indeed between various family members. This report looks at the experience of our partners in Europe, Asia and the Americas. In some countries, such as the Netherlands, the UK and India, our clients can be the great-great-grandchildren of the founders, while in Singapore, Argentina, and Romania, many businesses are undergoing the notoriously tricky leadership transition from second to third generation. What is striking is not so much the differences but the similarities of our partners' experiences, regardless of geography or sector. The basic challenges are much the same – and the good news is that with the right approach, some of the most common pitfalls can be avoided.

We hope that the insights and advice in this report will prove useful and practical for anyone faced with the dilemma of how to balance the interests of the business and the dynamics of the family to ensure an enduring legacy.

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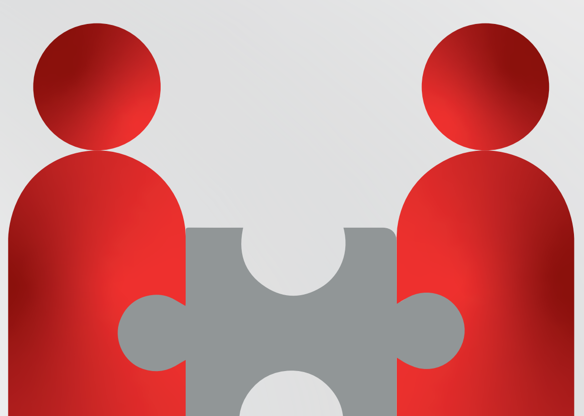
5 INTRODUCTION

Family-owned businesses are central to economic success for countries the world over. According to the ***2023 EY and University of St. Gallen Family Business Index***, the largest 500 family businesses are growing faster than the global economy – at nearly twice the rate of advanced economies and around 1.5 times the rate of emerging markets and developing economies. They collectively generate US$8.02 trillion in revenue and employ 24.5 million people worldwide.

> ‘THE INDEX ESTIMATES THAT IF THE WORLD'S LARGEST 500 FAMILY ENTERPRISES WERE A NATIONAL ECONOMY, THEY WOULD BE THE THIRD LARGEST AMONG THE CLUB OF 19 "TRILLION-DOLLAR ECONOMIES" THAT EXIST IN THE WORLD, AFTER THE UNITED STATES AND CHINA.’



Just under half of all the businesses in the Index are based in Europe. North America is host to 30% of family businesses, and Asia-Pacific has 16% of family businesses in the Index. The number of businesses from Asia-Pacific has risen constantly since the Index was first published in 2015, from 61 companies to 79 over this period. The consumer sector remains the largest sector (37.4%), but the advanced manufacturing and mobility sector increased its presence on the Index this year to 28.6%.

The continued success of these companies is critical to local, regional and global economies and depends on the extent to which a company manages change over time. In that process, profound work needs to be done on the level of governance and ownership. That work begins with people, though, with all their emotional issues – which are more intense when the people involved are related to each other.

This is well-known to the members of the AltoPartners global partnership. Many of the people and companies in the partnership have been part of a succession planning process for clients. And there are a number of AltoPartners members who are themselves family-owned businesses.

Their global experience spans a wide range of family business models and diverse sectors and industries and carries the understanding that governance and ownership patterns differ from region to region, adding an additional layer of complexity. The longevity of a family-owned business is a key distinguishing factor: in countries with younger economies, such as Singapore and Romania, businesses are grappling with the transition from a visionary founder to a (possibly) uninterested younger generation. In older economies like the Netherlands or the United Kingdom, companies that are hundreds of years old are figuring out how to deal with multi-generational family members – often direct and indirect relations – with differing levels of ability and interest.

This paper seeks to understand the work that needs to be done in transitioning a company to new leadership. In a series of in-depth interviews, members of the AltoPartners partnership shared their insights, experiences and wisdom. Based on those interviews, we present a wide-ranging look at trends, challenges and solutions from many parts of the world.

Positioning an 11th-generation cousin consortium for the future: in conversation with Renée de Kuyper

The world's top 10 family-owned businesses, 2023

Company	Revenue
Wal-Mart Inc. (US)	$572.8 billion
Berkshire Hathaway, Inc. (US)	$276.1 billion
Cargill, Inc. (US)	$165 billion
Schwarz Group (Germany)	$151.5 billion
Ford Motor Company (US)	$136.3 billion
Bayerische Motoren Werke AG (BMW) (Germany)	$131.6 billion
Koch Industries Inc (US)	$125 billion
Comcast Corp. (US)	$116.4 billion
Dell Technologies Inc. (US)	$101.2 billion
Reliance Industries Ltd (India)	$941 billion

Source: The 2023 EY and University of St.Gallen Family Business Index

What is succession planning?

Succession planning can be defined as "...a structured process involving the identification and preparation of a potential successor to assume a new role" ***(Burns, 2014)***. Simply put, it requires the current ownership to plan the company's future and then to implement the plan. But it's a complex process involving personal issues, relationships and organisational dynamics.

What is a family-owned business?

Family firms are organisations in which two or more extended family members exert influence over the course of the business through kinship links, management responsibilities, or ownership rights. As family-owned business expert John Davis ***points out***, the range of these businesses can be vast, from husband and wife co-founders to large cousin networks with multiple branches and from family managers actively running the business to companies in which external professional management has been brought in.

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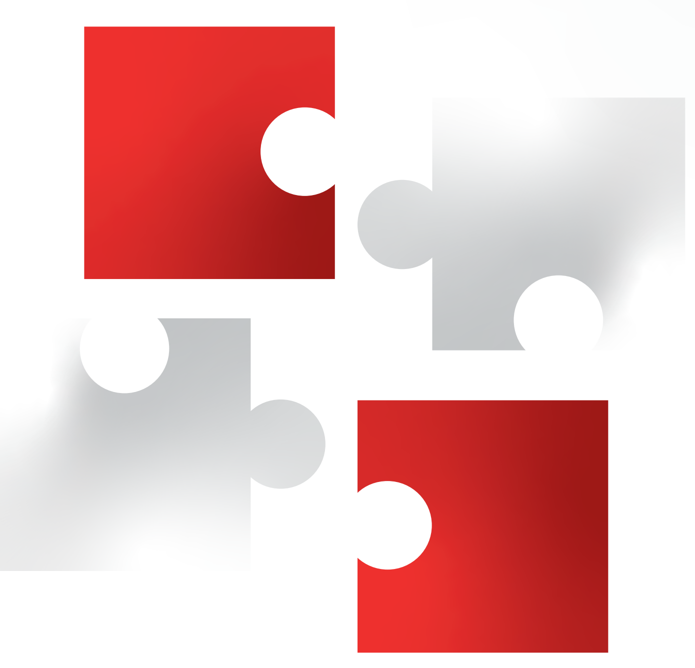
THE GOOD AND THE COMPLICATED IN FAMILY-OWNED BUSINESSES



Family-owned businesses have a lot going for them:

• They take the long-term view, with an eye on stewardship as opposed to chasing quarterly results. That means they look to sustainability.

• They often have a stable pool of shareholders or are financed by their own money. Financial policy can be easily adjusted.

• There's passion and involvement that's easily recognisable to the outside world.

• They have agility in decision-making because they have flatter structures, with staff able to access leaders for immediate decisions.

However, family-owned businesses often face unique dilemmas due to the mix of family dynamics and business operations. Albert Froom, Managing Partner Leaders Trust / AltoPartners the Netherlands and AltoPartners Global Practice Head for Family-Owned Businesses, lists those challenges:

To address these dilemmas, family-owned businesses need clear communication, well-defined roles and responsibilities, governance structures, and professional advice from advisors or consultants who specialise in the dynamics of family businesses.

Family vs. business interests: Balancing the needs and ambitions of family members with the best interests of the business can create conflicts.

Fairness in compensation: Determining fair salaries and compensation for family members working in the business can lead to disputes.

Decision-making: Struggles over decision-making power and authority within the family can impact the business's direction.

Conflict resolution: Resolving conflicts between family members can be challenging, especially when it affects the business's operations.

Growth vs. tradition: Choosing between pursuing growth and innovation or maintaining traditional family values and practices can be a dilemma.

Outside expertise: Deciding whether to bring in non-family members with specific expertise or to rely solely on family members for leadership roles can be a dilemma.

Estate planning: Managing the transfer of ownership and assets, including taxation and inheritance issues, can be complex.

Separating family and business: Striking a balance between family time and business commitments can be difficult.

9 TRENDS

Many of the challenges listed above are not unique to family-owned businesses, but two recent trends have made succession planning in family-owned structures more challenging:

People are having children later

Company leaders are putting off having children till later, so come retirement age, the next generation are not yet ready to take over. In many cases, this will mean that a company needs to hire an interim CEO, who will run things until the children are ready.

Sonal Agrawal, Managing Partner Accord Group India / AltoPartners India and AltoPartners Global Chair and AESC Global Board Member, says it's important to have clarity on timelines. "If you want someone to come in while your son finishes high school and gets himself ready, you need to define what your window period is. This helps manage expectations and enables clear strategic guidelines to be developed. Levels of authority and empowerment also need to be discussed."

Toral Patel, Managing Partner Accord Group India / AltoPartners India, suggests using ***the four-room model.*** "Think of it like a home with four rooms. There are different levels of authority in each room. And then you decide who plays in which room. You have a room which is about ownership; you have a room which is perhaps the boardroom, which is about strategic direction for the business; you have the management or engine room, which is more about operating and running the business and deriving performance. And then you have a separate room, which is the family room, which is the family beyond the business because those dynamics could play out when making strategic decisions."

Having clarity on these areas of the business and family when planning for succession can go a long way to making the process smoother: "It's also important to have clear communication when you're going through any form of succession. And a lot of transparency around the decision-making," says Patel.

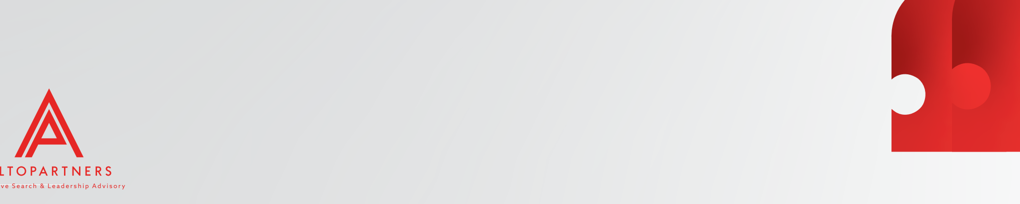
The age of transformation

Ricardo Bäcker, Founding Partner and Chairman Bäcker & Partners / AltoPartners Argentina, says that 21st-century businesses must deal with a world that's constantly in flux – and this means having to evolve continuously. The people who make evolution or transformation possible are young and technology-friendly – even if they are not specialists, they are flexible and they're customer-oriented. These kinds of people are a scarce resource, and they can choose where they go.

"If you don't have the culture to attract these people, you will not be able to evolve. Culture is a strategic necessity, it's not a nice-to-have. It's a matter of being attractive in the talent market. Companies – and this includes many family-owned businesses – which are not used to seeing the talent market as something they must care about will lose ground. Whether the succession plan looks to the younger generation or to outside talent, a culture of transformation is vital," he says.

11 KEY SUCCESS FACTORS IN NAVIGATING SUCCESSION CHALLENGES

In interviews with members of the AltoPartners partnership, it was striking how often the same themes emerged. What was also notable was the range of experiences and learnings that can be applied to managing the succession process in a family-owned business. Here are the themes which came up again and again.



THE FOUNDER – KEY TO THE PROCESS

Particularly in companies that are transitioning from the first to the second generation, the role of the founder is key. The same qualities that cause founders to succeed often make it very hard for them to let go. They tend to have very strong personalities who often brook no argument, with a propensity to micro-manage, which comes from having had to do everything themselves, especially in the early phases of the business. They are often perfectionists and know every facet of the business, so it's hard for them to trust that an outsider can run a tight ship without the advantage of institutional memory.

Froom says founders are talented and visionary people. "They can be lonely. They're not given to discussing their issues even with their children, and if they talk to an outsider, it must be one-on-one."

A skilled advisor can also help founders unpack their expectations and fears, leading to insights which are key to making the succession plan work.

Success factors

1. The founder needs to find someone they can trust to discuss their succession dilemmas with. Froom says this can take a long time – a point echoed by *Joo-Lee Aw, Founder and Managing Partner of The People at Work / AltoPartners China and Singapore,* who says: "Dealing with founders takes stamina and a commitment to immerse yourself in the company culture, history, and business, to truly earn their trust."

2. *Corinne Klajda, Managing Partner Accord Group Polska / AltoPartners Poland,* says a key attribute in working with founders is courage – and respect. "You need someone who can express himself or herself without being rude. It takes courage to say let's rather do this a different way. The ability to communicate in an eloquent and simple manner is critical." When working with transition processes, she says the key is to find people who are strategic, with analytical skills, who can very quickly scan the market and say, 'Okay, that's the direction', but they need to be able to convey that with discretion.

3. *Santiago Solis Arias, Partner at Executive Connection S.A.S / AltoPartners Colombia and AltoPartners Global Operating Committee Member,* mentions a different kind of courage. He says he has seen succession plans fail in cases where the founder is not ready to hand over. "The CEO needs to be ready to change – after all, they are going into a situation of shared leadership." In his role as executive coach, he says the most difficult aspect of being a trusted advisor is having to convince the CEO to let go: "You need to help them find the courage to let go and to let the new person do their job."

"If they bring an outsider into their company, they feel as though they are bringing someone into their home. It's not a decision taken lightly, and in some cases, not even willingly."

Sorin Popa
Managing Partner Accord Group Resurse Umane ECE / AltoPartners Romania

Drilling down to understand the nuances:

"We recently ran a search for a property company that was hiring its first professional CEO. The owner had been completely hands-on but wanted to take a step back. His children were not yet ready to take on the role of a full CEO, so he was looking to bring in a professional CEO who would complement the in-house skills that already existed. This meant getting to know not only the business and its operating context but also what skills there were in the company, what the owner was willing to give up completely, and the areas he would like to remain involved in. We worked very closely with the owner to unpack that. After much discussion, the owner finally admitted – to himself as much as to us – that his passion lay in the design aspect of the business, and while any large acquisition of land or investment would need his ratification, he wanted to continue having a larger say in the design elements. This was something he hadn't articulated even to himself before we went through that process. After that, it was relatively easy for us to find the right CEO because we knew that we needed to bring in someone with skills that were more complementary to the work that the owner wanted to keep for himself. It's very important to understand that push and pull. If you can get that right, then the chances of success for a professional CEO increase exponentially."

Toral Patel
Managing Partner Accord Group India / AltoPartners India

COMPANY CULTURE

Culture is always important, but never more so than when finding a CEO to take up the helm of a family-owned business, especially when the person handing over the reins is the founder.

Solis says the succession planning process depends on gathering information on experiences, competencies, personal traits, and cultural affinity. "The family is responsible for the continuity of the culture of the company. And if you're going to have somebody running the company who is not part of the family, you must make sure that that person really understands the culture of the organisation that they are going into," he says.

Success factors

1. Solis says the first step to take is to work with the company's board, building a profile of the organisation's culture. This profile is critical in planning who might be suitable to take over the leadership reins, particularly if someone is being hired from the outside.

2. Klajda says an organisation's culture must be based on core values. She says there may be culture changes over time in terms of how a business runs, "but there is one fundamental that never changes: the core values. I think this is the basis of success. If everybody is aligned, regardless of what they are producing or selling, it makes them stronger, especially during challenging times."

3. *Carol Leonard, Managing Partner The Inzito Partnership / AltoPartners UK and AltoPartners Global Operating Committee Member,* says humility is important in a leader hired from outside the family. "They need to make decisions always with the interests of the family and the business uppermost in his mind." This selfless approach means an incoming CEO can form a close relationship with the family but must also keep some distance in that they never start to think that they are part of the family. "They're usually very well paid to provide a service, and they need to do that incredibly well, give the family the best advice, keep them at the cutting edge of everything, put in place all the KPIs and the other measures that they should have. But they need to do that in a slightly gentler way than you would in a corporate because you've got to carry the stakeholders with you."

TRUST

Trust is the key factor in a successful leadership transition, says Klajda. The "old" leadership needs to be able to trust the "new" leadership – and that applies whether the company is being handed over to family members, or to an outsider in the form of a professional manager.

That trust is a two-way street. She says the new leadership needs to be able to take risks, to fail, to stand up, and keep on going. "The owner needs to allow space for people to mess up – within boundaries. Very clearly defined boundaries are important. When there are boundaries, both sides have a feeling of security."

Success factors

1. Patel says that from a candidate perspective, there needs to be a level of maturity to understand the context when they come in as the first professional CEO of a first-generation family-owned business. "If they come in expecting that the owner is going to vanish overnight, and they're going to have free rein to make dramatic changes to what the owner has done, that's not going to work. They need to build trust and credibility by working with rather than against the owner."

2. Klajda says very clear, regular communication with a high level of proximity is key to building trust. "Whether you call it team building or company lunches, you have to carve out time for people to get to know one another on a personal level. This helps to ensure that everybody has shared values, that they understand what's important to each other. And when they have this on a regular basis, it's much easier to challenge one another." This kind of proximity happens naturally in families but needs to be consciously replicated when a close-knit family-owned business is admitting an outsider.

SHARED LEADERSHIP

It may not always be obvious to the people involved, but the handover of power to a new generation means that a company finds itself dealing with shared leadership.

When family members work together in this way, things can get complicated. Whether it's a husband-and-wife team or siblings working together day-to-day, or a situation where the younger generation is in the process of inheriting the company from the generation before them, decision-making is shared between people. Other members of the team or employees might find it hard to understand; people generally think of a leader as an individual or leadership as a solo activity. That might lead to confusion and uncertainty. But time spent in shared leadership can give the younger generation the opportunity to learn alongside the older generation. It also gives those handing over the reins a sense of comfort that they are being heard and that their advice is taken on board.

Success factors

1. Bäcker says that managing expectations is critical to the success of shared leadership situations. "For example, the founder is entrepreneurial, but that isn't necessarily a trait inherited by their children. If the founder fails to find the right successor, then they hire someone. Sometimes, they just want a person who takes care of all the processes and details – admin, finance, administration, and human resources, etc, allowing the owner to concentrate on the strategy and commercial aspects. A common mistake is to call that role a general manager, but really, it's not a GM role as it has limited executive power." It's important to be clear on the role the incumbent is required to fill and what's expected from all parties.

2. Patel says chemistry is critical in situations of shared leadership. "The owner is still going to be the decision-maker on a lot of things, and there will be power centres within the group that will take time to shift. When you have a first-time CEO coming in, there will be people who will continue to be aligned with the owner. Anyone coming in has to be cognisant of that and must be mature enough to deal with it." Equally, says Agrawal, the owner needs to be able to allow an incoming professional or the next generation to do the job without interfering in the background: "They need to know when to listen and when to push back so that they can set up the next generation or the new CEO for success."

FAMILY RELATIONSHIPS AND INTER-GENERATIONAL DIFFERENCES

Family structures can vary enormously from company to company. From a situation where a parent hands over to a child to a situation in which 130 people (all related) can hold shares in a company, there are any number of ways this can play out.

A common thread, though, is that younger generations have often grown up with vastly different levels of wealth and privilege compared to their entrepreneurial parents or grandparents. Not all of them share the founders' passion. Nor do they necessarily possess the required traits and experience to successfully grow the business.

And they might have very different ways of seeing the world. Bäcker notes that many people under the age of 35 don't tolerate authoritarianism well. "They want freedom. You cannot make them go to work physically if they can work virtually, and if they work virtually, you have to give them a purpose."

"Multinationals have developed ways of dealing with this, but you might not typically find that degree of tolerance in a family business. Every company needs younger people. In Argentina, the younger generations just leave if they know they can find something else. That might mean a job in another country – but it may also mean that they choose not to enter the family business."

Success factors

1. Froom says that one way of dealing with the complexity is to create a family statute, which governs how family members deal with each other. For instance, the statute might determine that there's an annual meeting of family members and outside shareholders, which irons out issues the company and the family are facing. In Colombia, says Solis, a family council can help in dealing with things that relate to the family – but such a council does not make any business decisions.

2. Leonard says it's important for the board and leadership of a company to get input from outside to strengthen their teams. It's possible that the younger generation simply wants to be active shareholders and have their own separate careers: "These are often wealthy people, and they have the right to choose. What's the point of being wealthy if you can't choose whether or not you want to work in the business? At that point, professional management in executive or non-executive form protects the family investment and makes sure they're getting the best advice and the best information flow and the best controls."

HOW LONG DOES IT TAKE?

AltoPartners experts are unanimous: succession planning is a complex process that cannot be rushed.

Klajda says that succession planning might look straightforward, but in fact, it is one of the biggest challenges that business owners face. Drawing on her 26 years of experience in the field, she says the only thing that's seen to work in succession planning has been allowing ample time for the process.

Success factors

1. Solis suggests this is a process that should be ongoing. "The big companies in Colombia that do this are constantly evaluating their internal candidates and watching what is going on in the market so that they build a talent pipeline. So, whenever there is a need, they have a lot of information ahead of time."

2. Agrawal suggests starting with the question: What does success look like? Even if it means the company continues in another format or with new ownership, a clear-eyed view of the roadmap for handing over is crucial, she says.

How much time is enough?

Says Klajda: "Those who have tried to do it in four or five years have sadly failed dramatically. The succession of family-owned businesses is not something that we can just take lightly and say, okay, we'll manage it when the time comes. I haven't seen it work, regardless of the size of the business. It is a long process."

19 ROLE OF THE BOARD

Globally, our research emphasises the importance of governance for family-owned business. That governance often happens in the form of a board of directors.

The ways in which boards are structured vary from region to region – in many European countries, the two-tier model sees one board overseeing routine managerial tasks and transactions while a separate, independent board handles the long-term strategic planning and decision-making. The latter, the "supervisory board", oversees the former, the "management board".

Elsewhere, a unitary board governs and oversees the strategic direction of a company.

In most jurisdictions worldwide, a board (or boards) is a legal requirement that aligns with the way in which a company is structured. But family-owned businesses – especially if they are smaller – can fly under the legal radar. And bigger ones can possibly comply with the legal requirements, but have a board that consists solely of family members.

In Argentina, says Bäcker, some companies don't have boards, or they have a board in theory which does not function in practice. In Romania, says Popa, boards have only started to be a feature of life for family-owned businesses in the last 10 years.

Not having a board can backfire

When a company is simply handed over to a son or a daughter or a nephew or a niece, with no governance processes or board oversight, whatever problems exist in the company are simply moved down the line to the next generation. In addition, the lack of a supervisory board can mean that the company can take shortcuts, particularly in terms of compliance and how money is managed.

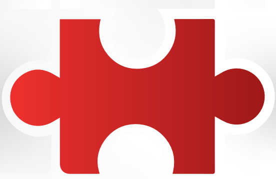
THE BOARD OF A FAMILY-OWNED BUSINESS FACES PARTICULAR CHALLENGES:

• In a publicly-owned company, the board can change the CEO, or the shareholders can express dissatisfaction and sell their shares and walk out. That's not necessarily the case in family-owned businesses. There needs to be work done on managing complex issues over time because a short-term change of management is often not available as an option.

• Because of the often informal nature of family-owned businesses, where members of the family are also on the board, it's tempting to bombard a new CEO with ideas from individual board members. Bäcker advises that there should be a routine of decisions being discussed at board level, which are then communicated to the management team.

• Board members need to respect the family leadership's need to make decisions that work for the business and the family.

• In fast-moving businesses (like e-commerce), where many decisions need to be made at speed, a board can protect a business owner by looking at the list of possible directions and setting boundaries about what might be possible and practical.



• Klajda advises people not to join the boards of family-owned businesses unless they are prepared to put their heart into it. "The family's expectations are high. The owners are expecting you to bring value-added insights. It's not only engaging from the brain, it's also engaging from the heart. You are not part of a supervisory board at a bank checking that everything is compliant. That's not it. Whether you are making coffee beans or selling cosmetics, you have to be passionate about it."

• It's common for company owners who step down to then join the board of the company or for family members in general to be part of the board. Froom advises that a board should always also contain two independent, non-family-related people. Leonard adds that it's valuable for board members to have governance and professional input garnered from other companies they may have worked with.

21
HOW AN EXECUTIVE SEARCH CONSULTANT CAN HELP

An executive search consultant can bring structure, objectivity, and expertise to the succession planning process of a family-owned business, ensuring that both family values and business requirements are addressed. For instance, founders/owners tend to value cultural fit over experience or expertise when considering external candidates.

"Our advice, however, is always to work with an executive search partner that is prepared to take the time to understand your unique culture and find candidates who align with it, while bringing an objective assessment of candidates' knowledge and experience," says Joo-Lee Aw. Providing a balanced perspective free from emotional biases or historical baggage is crucial but the search consultant needs to be sensitive, perceptive and patient enough to draw out any unspoken expectations of candidates by the owners.

Another important part of the process is **benchmarking**. "It's essential to be able to guide the owners on how to make the offer more attractive based on our understanding of industry trends, the competitive landscape, and compensation benchmarks," adds Froom.

Other, less obvious advantages include:

- **Mentorship** of family members deemed to have potential but lacking leadership skills or experience.
- **Acting as the neutral go-between** when facilitating discussions between family members and other stakeholders, ensuring everyone is aligned in terms of expectations and objectives.
- **Onboarding support** to ensure a smooth transition from one generation to the next.
- **Contingency plans** in the form of interim management support in the event of unforeseen circumstances or sudden exits.
- **Advising on governance policies and structures** that balance family interests with business needs.

SIMPLE STEPS TO ATTRACTING OUTSIDE TALENT TO FAMILY-OWNED BUSINESSES

1. Have a mechanism to control and manage family dynamics so that they do not interfere with the autonomy of the CEO. This can be independent board members or family councils with the mandate to resolve disputes so that they do not impact on the business. Sound governance structures are a safeguard against dictatorial decrees.

2. Have clear policies governing the employment of family members and the shareholder structure.

3. Invest in competent advisors (especially when it comes to shareholders structures, governance and ESG matters).

4. Invest in technology.

5. Be very clear about what you want the incumbent to achieve in terms of the business. The person cannot be a surrogate placeholder or titular head. The shareholders need to be very clear and unified on their expectations of the incumbent. It is then over to the candidate to devise a strategy to achieve the goals, and once approved by shareholders, they must be given the support and freedom to implement the strategy within clearly defined parameters.

"The politics in any company need to be carefully navigated, but never more so than in a family-owned company, where those with the founder's ear can abuse their power. We once worked with the professional CEO of a family-owned business with global business operations. On the surface, he was the perfect successor to the chairman/founder as he had all the desired attributes: global experience, was a native of that region, a great track record all round. Unfortunately, he was unaware of a personal agenda held against him by a disgruntled manager who had been overlooked for the CEO position. This 'trusted' long-timer planted negative stories about him. Despite having performed outstandingly well in his first few years, the CEO was abruptly asked to go, with the founder stepping back into the CEO role. This can, of course, also happen in companies that are not family-owned, but it's much rarer in organisations that are run by professional managers, where there are classes of shareholders and checks and balances provided by the board."

Joo-Lee Aw

The People at Work / AltoPartners China and Singapore

"Our client was very clear that they wanted their children to take over the running of the company. They wanted to retire, but the children were not ready to, and we concurred that they would benefit from another five years of general experience before assuming this role. The client planned to bring in a young professional manager to run the business for five years, who would then make way for the next generation of family members. This is, in effect, a long-term interim management role. Hiring a manager in their 40s means that in five years' time, they still have another 15 years ahead of them, and this could lead to conflict when they are given notice at the prime of their career. Our advice was to look for an older, more experienced manager with plans to retire in five or seven years and with the ability to mentor the next generation of owners. This creates a natural succession timeline for both the manager and the next generation."

Toral Patel

Managing Partner Accord Group India / AltoPartners India

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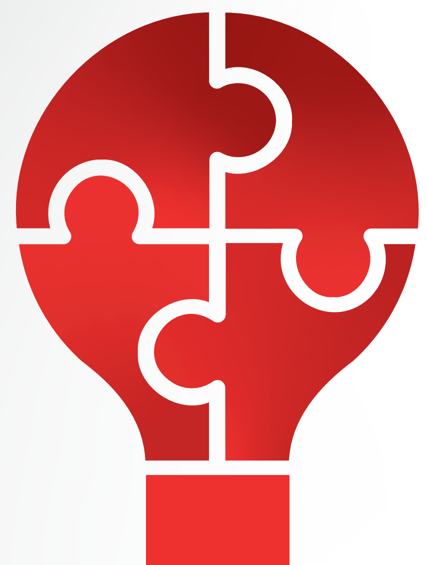
PUTTING IT ALL TOGETHER: WHAT'S IN A SUCCESSION PLANNING ROADMAP?

While the process will differ from company to company, all good succession plans are based on the same principles. The collective insights of members of the AltoPartners global partnership identify these as critical items on the succession planning to-do list.



TRUST AND COMMUNICATION

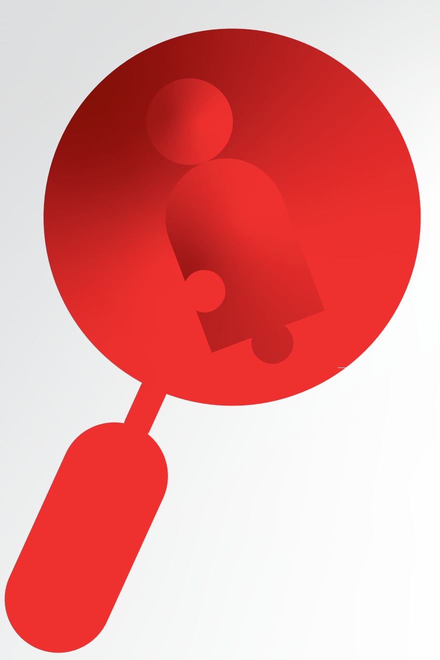
For succession planning to work, trust between the various stakeholders is key. Company leaders, whether in the first generation or the tenth, need to be able to trust their leadership team. They may also need to work on finding trusted external advisers – and their relationship with whoever they are handing over to should be based on their trust in that person or people.

When leadership is being handed over to younger family members, clear communication is important. The older generation needs to take into account that the younger generation may have very different needs and aspirations – and the younger generation needs to have a willingness to maintain the legacy that has been established.

A factor in building trust is proximity – it's important the family members and the people they hire spend time together.

UNDERSTAND THE CONTEXT

A succession plan – whether internal to the family or bringing in an outsider – can't happen in isolation from the context in which a company operates. In Argentina, where the economy is under considerable strain, external factors can impact outcomes in a profound way. Bäcker tells the story of a conversation he had with an owner with whom he had placed a general manager. "He was not satisfied with the manager's performance. One of the things I told him was: you took on a general manager to navigate, let's say, from Buenos Aires to Cape Town, and to organise the ship and the supplies and keep the passengers happy. But now you're suddenly in the middle of the storm (because of the economy). You've hired somebody to organise and to prepare for the future. But suddenly, he is absorbed by very operational events, and that doesn't give him time to organise processes. And that makes it very difficult to judge if he's good or not good for what you hired him for. I've seen this many times."



WORK ON SELF-AWARENESS AND BE PREPARED FOR CHALLENGES

Klajda says that when she talks to business owners and asks them what they would be working on if they had the time, everybody talks about internal work they need to do on themselves: "They say that this is one of the most powerful skills one can have. The greater your self-awareness, the better you can impact your business or the people working around you. You need to start with what your own issues and prejudices might be."

She says that succession planning must come from what people actually want – and that means for all generations. "We don't leave enough space for our children to say I don't want to go into business, I want to go into the arts. Business owners need to accept that it might not be their children who run the business, even if they will benefit financially. It's important to groom people internally. One of the things I have learned is never groom one successor, groom three. Because two of your candidates might not work out."

CORE VALUES AND CULTURE

Family-owned businesses might tend to take their core values for granted. Unlike a corporate business which needs to work on making employees understand the company's values, it might be tempting to assume that everyone knows the values simply because they are the family values. But AltoPartners experts are clear: it's important to be aware of values and boundaries, the risks the business will and won't take. And to write them down.

Awareness of company culture is also important. Solis recommends that the company builds a profile of its culture – experiences, competencies, personal traits, and cultural affinity.

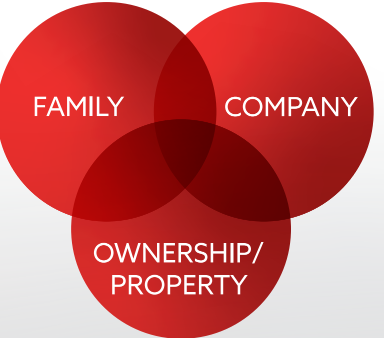
GOVERNANCE STRUCTURES

Governance structures vary from region to region and within countries. Whatever the rules and regulations in a jurisdiction, though, it's clear that governance is a critical factor in the succession planning process, whether that's through a board, a family constitution, a family council, or all three. For large companies, it's important for non-family members to be involved in the process and for the company to be able to take advice from professionals.

OWNERSHIP STRUCTURES

The three-circle model proposed by ***John Davis*** is used as a basis for analysing ownership patterns in family-owned businesses by several AltoPartners experts.

Three circle system: family-owned company and ownership



Using the three categories of family, business, and ownership makes clear that family and business are not the only issues relevant to succession planning. The position of various family members in the circles needs to be understood and taken into account when deciding how ownership questions should be resolved.

Agrawal says the ways that ownership issues might be addressed depend on the size of the family and how spread out the equity holdings are. "There are absolutely dozens of governance and ownership and operating models in play. There are rules in different families about who gets to be in an operating role, there are rules about who is allowed to vote on equity. There are questions about whether in-laws can participate or not, there are rules about differences between daughters and sons and cousins and uncles. In some cases, the family CEO gets majority control, and they have to buy the rest of the family out. Or they have different models of how dividends versus rewards are sorted out for running the company or for creating wealth."

One thing is clear:
A succession plan that does not provide details of how ownership is managed across the generations is doomed to failure.

MENTORSHIP, EDUCATION AND KNOWLEDGE TRANSFER

Leonard points out that not all family members are created equal. "You might get lucky, and they're all great people. There might be some people who don't know what great looks like. They haven't worked in another corporate environment. They have no experience in any other business. They might be quite ordinary people. But you are going to ask them to make extraordinary decisions or to work with things they don't understand."

Even for people who have an aptitude and an interest, entering the family business can be challenging. There are various ways of getting people up to speed:

• Bring in an external mentor, or several mentors, for people who might need coaching.

• Have the younger family member start at the bottom of the business, learning it from the ground up.

• Have the younger family member work outside the company for a certain number of years.

• Have the younger family member study in a different country to gain an international perspective.

WHEN SOMEONE COMES IN FROM THE OUTSIDE

A family business knows in its bones how "things are done around here". But there are many aspects of the way a company does business that might not be evident to an outsider. That person is often hired based on chemistry, on a feeling that they are right for the business. As Wolfgang Sauerzapf, former chief human resources officer, chief financial officer and now non-executive director in several large family businesses, puts it, this can come down to gut feel: "Sometimes it is about the haircut."

It's important to make the company's culture and values conscious and to make them clear to the new person. Sauerzapf suggests that a non-family executive entering a business can benefit from a mentor, someone who overlooks the relationship arena and gives hints on "dos and don'ts".

Aspects of the process that need to be put on the table as part of a transition process include:

• clarity on timelines (for instance, if a professional CEO is warming a seat for an up-and-coming daughter or son, there's a clear requirement to tell them that)

• identify internal existing power centres that might push back against an outsider – the family leadership may need to manage these hidden conflicts

• be clear about the limits (or not) on the authority given to the person coming in from the outside

• be clear about how they will be evaluated, and against what yardstick

• be clear about roles: who is taking care of operations? Who is looking at strategy?

• set clear boundaries about how much risk the company is prepared to take.

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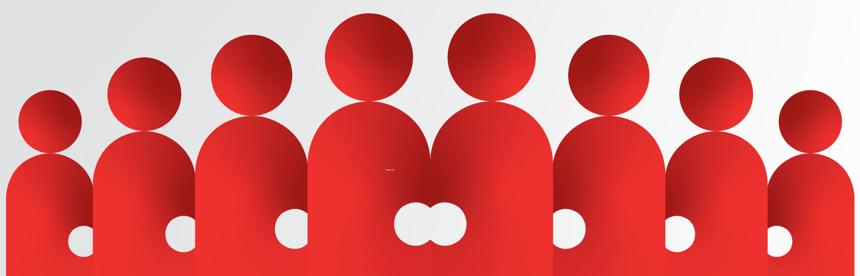
CONCLUSION

Power, money, family dynamics – it's a potent cocktail beloved by screenwriters for a very good reason. For the players, the stakes are high – both personally and professionally, and a failure in one sphere can have catastrophic repercussions in the other.

And yet, as our clients have demonstrated again and again, it is entirely possible to make the transition quietly and professionally, balancing the interests of all parties and setting up the business for long-term success.

To paraphrase a well-known saying, the best time to draw up a succession plan was ten years ago. The second-best time is now.



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