

FAMILY BUSINESS SOLUTIONS

PASSING THE BATON – A ROUND TABLE DISCUSSION



FBS

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Input from
Wright, Johnston & Mackenzie LLP



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INTRODUCTION

This note was prepared by Family Business Solutions¹ after two focus dinners held in conjunction with the Scottish Family Business Association² and Wright, Johnston & Mackenzie LLP³.

The dinners were designed to provide a generational perspective on the challenges encountered by business families who want to pass the baton of ownership and leadership from one generation to the next. The first dinner was attended by members of the next generation from a number of family businesses (NXG), and was followed a fortnight later by a separate event for representatives of the senior generation from different family businesses (Seniors).

The guests' experiences ranged from those who had completed their unique transition journey to others who were at the stage of "we must do something". Our thanks to all the guests who candidly shared their experiences and views and participated in open and enjoyable debates. They deserve recognition for their contribution to the family business body of knowledge, but it was agreed that identities of the participants would remain confidential.

The note records the guests' views and opinions under the following sections and, in each, the views of the NXG precede the Seniors simply because the NXG meeting took place first.

- Getting Started, including which generation should start the discussions, how to get started and what obstacles commonly get in the way?
- Some Helpful Advice on a wide range of issues that arise during transitions.
- Getting Finished, including how to make change real and how long will the transition take?

This is then followed by brief commentaries from George Stevenson, Chairman of SFBA, who took part in the Seniors' dinner; Martin Stepek, Chief Executive of SFBA, who participated in the NXG dinner and Ken McCracken of FBS who chaired both events.

1 Family Business Solutions Ltd (FBS) is an expert consulting organisation that works exclusively with family businesses and business families.

2 The mission of Scottish Family Business Association (SFBA) is to ensure the sustainability and growth of Scottish family businesses through education, support and raised awareness.

3 Wright, Johnston & Mackenzie LLP (WJM) are Scotland's leading family business and business family law firm. WJM focus on looking after family owned companies and other forms of private enterprise.

1. GETTING STARTED

Who starts the conversation?

The NXG view

- Often it's left to the NXG to start the conversation, but that's never easy because the conversation will involve sensitive and emotional issues about your parents.
- The NXG do not have the power to complete the transition so even if they force the pace early on, they cannot reach the finishing line on their own.
- It would be better if the Seniors recognised that a transition was happening and authorised the NXG to drive it forward.

Who starts the conversation?

The Seniors' view

- The NXG should start the process because it's about their futures. They should tell us when they're ready to start as we don't want to put the NXG under pressure.
- Parents should start the process as "parents" rather than as business leaders. It then becomes easier to address the emotional issues, which must be dealt with.
- In any transition the baton needs to be given before it can be taken. The Seniors have to take responsibility for starting the process.

How to start the conversation?

The NXG view

- It's very helpful if both generations get educated about how transitions happen in family businesses because it improves everyone's understanding about what's going on, helps to identify all the issues calmly and proves that you're not alone; all family businesses have to face these issues.
- Education is also important because it gives everyone a common language that helps in getting to the point and dealing with the big issues.
- Exploit significant dates (e.g. birthdays) and other events (e.g. other family members joining the business) as a trigger to get started.
- A crisis often brings the best out of folk. If you're completely stuck, you might want to manufacture a crisis if that's what it takes to get the process started.
- Get a good outsider who is absolutely neutral, knows about family businesses and can facilitate emotional discussions. It will help everyone focus on what they want and help the whole family decide what they want to do. Be very wary of advisers who want to impose their solutions and tell the family what to do.

How to start the conversation?

The Seniors' view

- Don't wait until a crisis occurs, especially a health crisis. It's very risky to allow a crisis to take important decisions for you.
- The seniors should start by clarifying their wishes. Do I want to retire; and, if so, when? Can I afford to retire? Do I want to remain involved in some way with the business?
- Think about forming a team of both generations. Eventually the transition is going to involve an inter-generational discussion.
- It helps a lot to have a skilled facilitator who can make sure everyone's voice is heard and you don't have to feel as if you always have to look out for everyone.

Obstacles to getting started

The NXG view

- The Seniors not being clear about what they want and NXG having to guess.
- The Seniors not asking the NXG about what they want.
- The Seniors provoking or goading the NXG into action related to the transition in ownership and leadership in order to test the mettle of the NXG and then the Seniors withdrawing or being negative when they don't like what the NXG would like to do.
- The Seniors having unrealistically high expectations of the NXG; why bother to make an effort when it will never be good enough.
- Love and respect for your parents, and often their strength of character, makes it very difficult to give the Seniors open and honest feedback.
- It's achingly difficult for the Seniors to face up to issues that involve their own mortality and to let go of a business that has often become "their baby".

Obstacles to getting started

The Seniors' view

- Anxiety about the NXG being able to cope, not because you doubt their abilities but because you want to take care of them.
- NXG need to be able to see clear roles for themselves in the future of the business otherwise why would they bother to discuss the future.
- Fear of retirement. What will I do? Feeling guilty about not working. Feeling that you're finished and it is the beginning of the end, rather than the beginning of the next stage of your life.

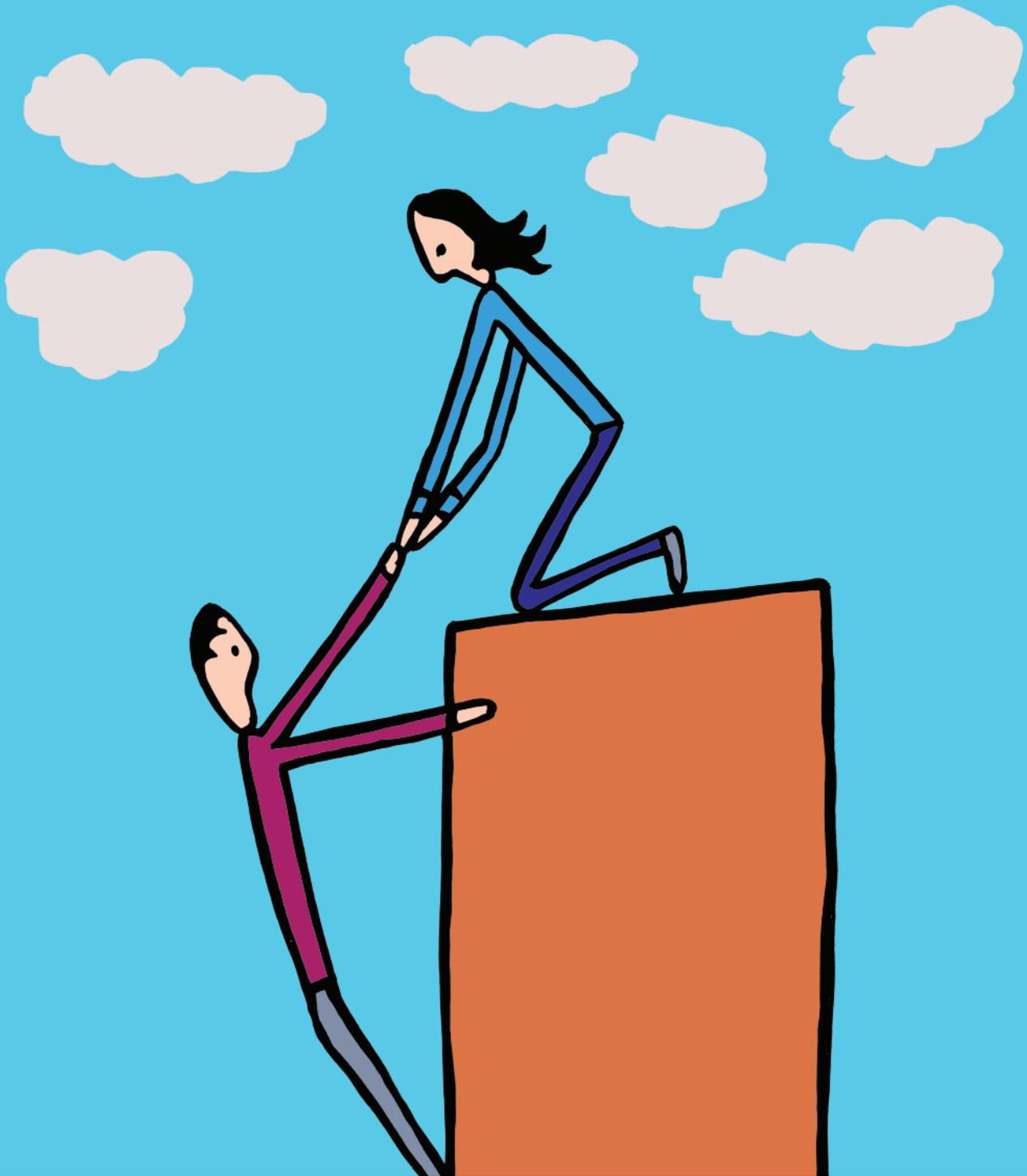
2. HELPFUL ADVICE

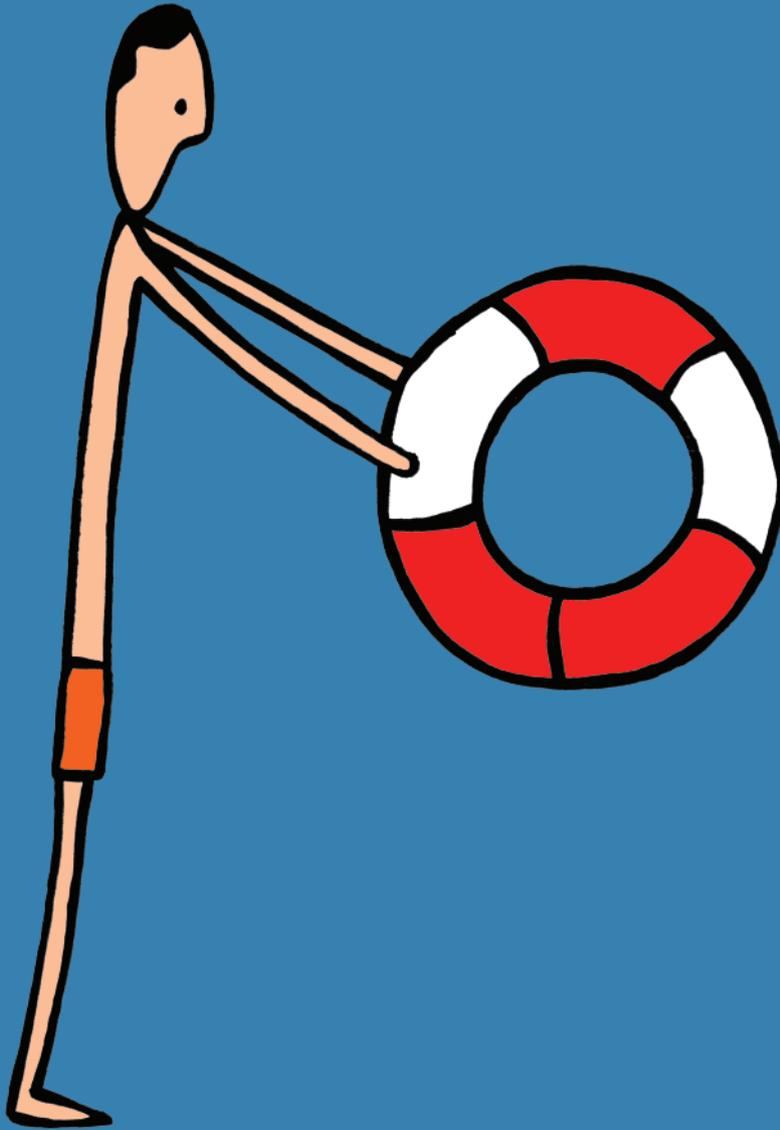
The NXG advice to the NXG

- Get educated about family businesses.
- If you're passionate about the business, then display your passion, drive and enthusiasm because why would the Seniors ever otherwise pass on "their baby" to you?
- If you're passionate about the business, never walk away from the transition challenge no matter how difficult it becomes. Stamina can be your most important strength and, if you want it badly enough, always do what's in the best interests of the business, even if it entails sacrificing some family relationships.
- Be very clear about what you want for yourself. Walking away from the family business is often tough, but do it if you need to in order to pursue your own dreams.
- Beware of the temptation of staying in the family business because it feels safer than leaving and trying something new on your own.
- Praise your parents for their achievements. They deserve it and it helps everyone to stay positive about the whole transition process.
- Talk to the Seniors about the past. It is an enjoyable way to improve your understanding about the business, and the family.

The NXG advice to the Seniors

- Parenting matters. Introduce the NXG to the business as soon as possible and instill the values you want to see reflected in the business.
- If you want the NXG to join the business, you need to be open with information about the business, including financial information.
- Encourage self-belief in the NXG, because they'll need it if they are to succeed you.
- Start discussing the transition from the Seniors to the NXG at the same time as you can discuss sex.
- Never force the NXG to join the business.
- Don't set the NXG up to fail by giving them responsibilities or positions they are not suited for.
- Age matters. Don't hold on to power until the NXG are too old to enjoy their time as leaders.
- Listen – really listen – to the NXG. Do something to show you've understood what the NXG want to do.
- Be candid, honest and open about your wishes rather than allowing assumptions (which are no better than guesses) to arise.
- If you would like to have a continuing role in the business after you "retire" then say so.
- Be very aware of how you treat the NXG in the presence of staff and other key stakeholders.
- Focus on how to pass on your experience and wisdom but let the NXG pursue their own dreams (even if you would not have done it that way) and make their own mistakes (you made mistakes as well, remember).
- Mentor and coach the NXG the same way you would a senior non-family employee.
- Accept that change is inevitable. Don't try to make the NXG "do it your way".
- Create a transition plan with the NXG; don't try to do it for them.
- Make sure you know what the NXG want; you can't assume you know unless you ask them and make it easy for them to express their own views and opinions candidly.





2. HELPFUL ADVICE – Continued

- Work as hard at retirement as you worked in the business.
- If necessary find a “status” outside the business to replace your business identity.
- Don’t confuse your roles as head of the family with your responsibility to the business as leader. Parents don’t get to retire so you’ll still be mum and dad after you’ve stopped being involved in the business.
- Aim to be financially secure independent of the business so you can afford to retire and don’t hold up a transition because you still need an income from the business.
- Praise is very important. Tell the NXG when they’ve done something well.
- If as a parent you’ve encouraged the NXG to go out and do their own thing and go their own way, be very careful about the consequences of later sending out messages wanting the NXG to come back and take over the business when the Seniors are ready to retire.
- Never say, “I did this all for you”.
- Tell the family your estate plans because it gives everyone peace of mind.

The Seniors advice to the NXG

- Be respectful of the Seniors’ feelings and reputations and what they are facing up to.
- Avoid public disagreements.
- Avoid appearing lackadaisical and make sure you look the part of a business leader.
- Maybe you should earn your inheritance rather than receiving it.
- Be certain that you want to be in the business and avoid doing it out of a sense of duty to the Seniors.
- Avoid becoming stuck by trying to protect the interests of the Seniors
- Ultimately the family is more important than the business and so avoid the family breaking up over business matters

The Seniors’ advice to the Seniors

- Make sure there is an effective board in place during the transition as it makes transition easier.
- Face up to reality; we’re all mortal.
- Be honest about what you are actually contributing to the business now. Don’t live off past achievements.
- Lack of praise to the NXG can cause difficulties including resentment.
- Avoid becoming stuck by trying to protect the interests of the NXG.
- Retirement is the next phase of your life and needs careful planning. You have to be retiring to something rather than nothing. Consider hobbies, community roles, philanthropy, even starting new ventures.
- Retirement doesn’t necessarily mean complete cut off from the business. You could stay in an agreed capacity such as non-executive director or on-call consultant.
- Distinguish when you are speaking to the NXG as “parent” and as “boss”.

3. GETTING FINISHED

The NXG view

- Employees and other key stakeholders will usually accept change and even be relieved to see that the transition is happening. Take steps to ensure that they see this as a natural process in a family business and not as a threat to their livelihoods.
- Gain respect by working hard and being seen to take decisions rather than going back to the Seniors. Trust your own judgement rather than second-guessing what the Seniors might have done.
- Create a handover strategy including a public announcement to recognise the Seniors' achievements and bid them farewell.
- Make sure the timetable is long enough to download the experiences and contacts of the Seniors and for everyone to get used to their new roles.
- Don't let the transition process drag on so long that everyone doubts it will ever happen.
- Leadership and ownership should pass over at the same time. Seniors holding on to shares for financial security means they are also holding on to power.
- NXG should be aware of the importance of securing emotional power; think and act as if you have power.
- NXG should take their share of responsibility for making sure that the Seniors legacy is clear and secure.
- Be very clear that everyone has the same understanding of what "retirement" means. It can easily mean different things to members of the same family.

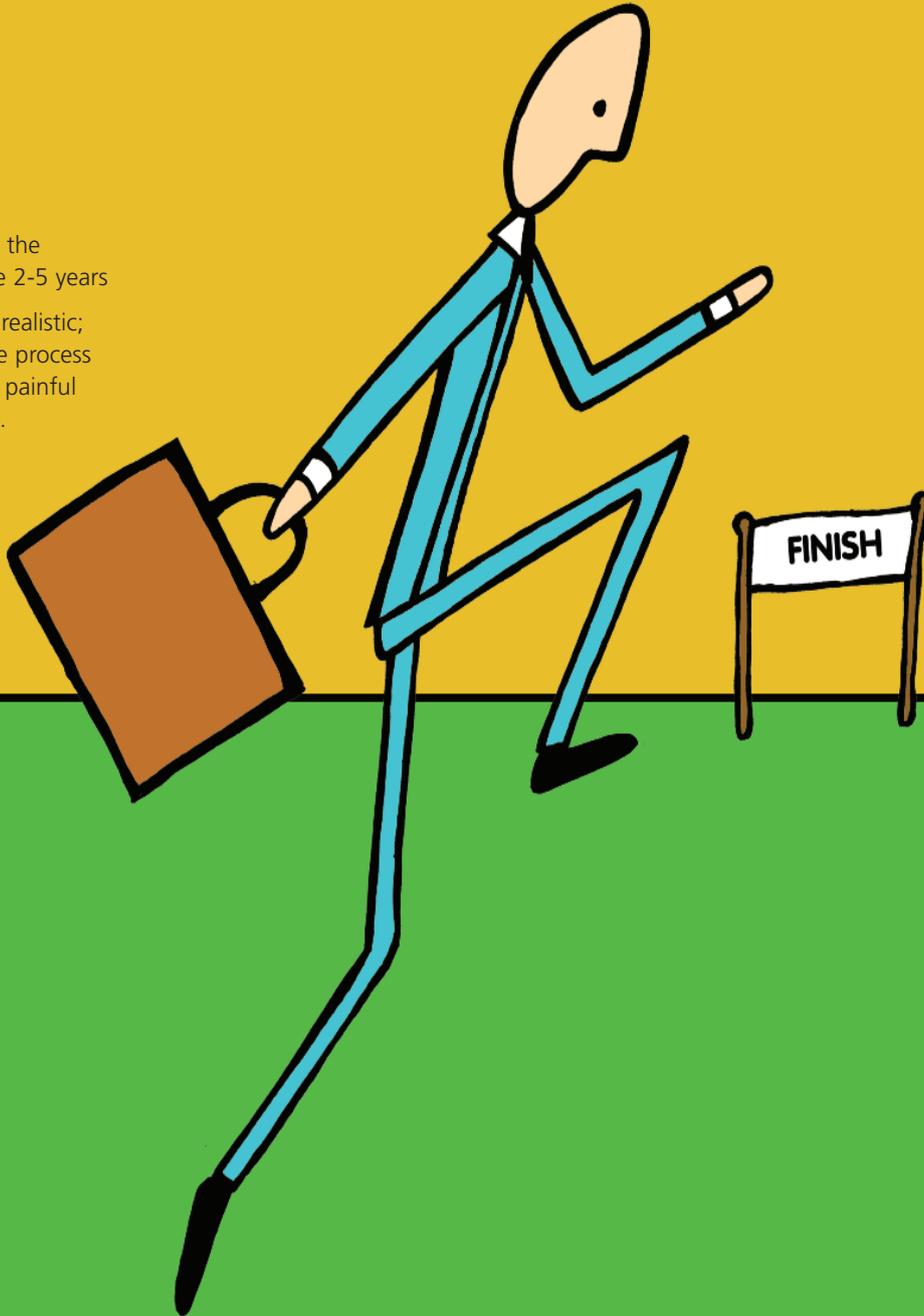
The Seniors' view

- Seniors role in the business beyond retirement, if any, should be clear to all.
- To make the transition stick, the Seniors need to avoid doing anything, however well intentioned, that could be perceived as undermining the power and status of the NXG who have succeeded them. For example, coming back into the business unannounced and meddling in decision making by the NXG.
- Remove the Seniors' symbols of power (office, desk, chair)
- Make sure that the structures that are in place (e.g. board, family assembly) will help to secure the future of the business rather than preserve the past.
- The Seniors need to wind down a bit at a time rather than retire suddenly. Retirement is a carefully planned process, not an event.
- Make sure that the Seniors' contribution is recognised and rewarded so that they have good memories and financial security for the next stage of their lives.
- The transition in management or leadership authority to the NXG who are in the business can be dealt with separately from a transfer of ownership. The NXG can take over day-to-day control but the Seniors can hold on to ownership, which they might need for financial security.

Timetable

The NXG view – expect the transition process to take 2-5 years

The Seniors' view – Be realistic; transitions take time. The process is likely to be sometimes painful but ultimately rewarding.



COMMENTARY

George Stevenson

Chairman, Scottish Family Business Association

Although the main purpose of these meetings was to explore the issues surrounding transition and succession, it quickly became clear that the participants, particularly the seniors who were currently facing up to these issues, found the process itself hugely informative and educational for them.

For most of them, this occasion was the first opportunity they had ever had to share their problems (in many cases deeply personal) and have them discussed by people who understood exactly what they were going through and were able to offer support and advice based on their own similar experiences.

It is not unusual for business people to place more credence on what they learn from other business people rather than from academics or consultants and, thanks to careful selection of the participants, the event was a classic example of how powerful this can be. Despite the fact that all families are different and there is no "one size fits all" blueprint or solution for planning succession, the involvement of a participant who had completed her transition extremely successfully meant that those just embarking on the process benefited hugely from listening to her experiences.

It was most interesting to note that, even though the family system was stable at the time she embarked on her journey, the process itself inevitably brought potentially contentious issues to the table for discussion. And although these were all overcome in the end, the involvement of an independent advisor, skilled in family business issues, was crucial.

The SFBA is always looking at different ways to provide support for all the family businesses in Scotland. All would, without doubt, benefit from education on the tools for better management of business family systems and structures. When and how this can be done to suit the particular needs of different businesses at different stages of their development is one of the big challenges. However, one thing is sure, for certain families, involvement in more events like these focus dinners will prove to be extremely beneficial and we will continue to work with FBS to provide them.

THIS OCCASION WAS THE FIRST
OPPORTUNITY THEY HAD EVER
HAD TO SHARE THEIR PROBLEMS





COMMENTARY – Continued

Martin Stepek

Chief Executive, Scottish Family Business Association

It is very important that family business people get opportunities like this dinner to meet and talk confidentially with their peers.

Clarifying what you want to do with your life was a key recurring theme in the conversations, whether related to the younger generations' aspirations towards leadership, or the senior generations' post-leadership life activities. This is not only important for the individuals themselves, but crucial for meaningful family conversations.

It was interesting that there was no agreed best way to start the process, which sounds right to me. I guess this lack of unanimity comes about because ideally the conversation should already exist and be part of the family from the time the children are still kids. In a healthy family business, what will happen to the business in years to come would comprise part of regular conversations, with the details being discussed and options changing as the years go by.

This is where regular family meetings, with clear agenda points, and agreed current positions on major areas such as succession, ownership transfer, estate, etc, can be so helpful. Alternatively or in addition it is where a trusted non-family facilitator can be really helpful in starting the conversation or re-igniting discussion if anyone's views change over time.

It seemed to me reading both generations' views that it is crucial for the next generation to seek to truly become themselves, to develop their self-esteem and sense of inner confidence and resilience. Not only would parents and employees take note and respond, but the individual would emerge from the shadow of being their parent's son or daughter and it would be easier for them to gain greater clarity about their own life goals.

It was interesting to note that some in the younger generation need the seniors not to set too high expectations; this leads to lack of a sense of accomplishment, and loss of confidence which inhibits starting conversations with parents. This may be indicative of a wider sense amongst some younger generations that they feel nervous about having difficult discussions with their seniors, possibly because of the continued existence of a parent-child relationship, rather than one of two equal adults.

It is important for seniors to share business information, and the lessons and contacts they have gathered over the years, not only in preparing the next generation for leadership of the business, but before then, in helping them decide whether they want to consider the role of future leader.

Another recurring theme: what to do post-retirement. I don't think my father ever fully recovered from the twin losses of status and work routine/rituals when he retired. A critical element of succession planning is deciding what your post-retirement life will look like. Endless golf and watching TV does not fulfil the normal family business senior for long!

I liked Ken's insight about how lives are shaped by narratives and stories. All family businesses are a narrative; a kind of rags-to-riches story meets soap opera relationship challenges. The key point I think, for the senior generation, is to pass on a happy narrative and create their own new story-line post-retirement, whilst for the next generation their task is to continue the business story-line and write new chapters for it. And as with all good books or films, it takes teamwork, clear goals, and ongoing high quality communication to make it a winner.

COMMENTARY – Continued

Ken McCracken

Consultant to Family Business Solutions

Understandably, at each of the meetings there was a lot of discussion about the importance of communication, the essential lubricant of any transition process. It was very encouraging to hear the amount of empathy each of the groups had for the needs and expectations of the other generation, since this is a good starting point for any conversation.

I was very interested to see that each generation attributed importance to praising each other more and recognising each other's achievements. I also liked the NXG idea of speaking to the Seniors about the past. It may seem odd to start a discussion about the future by looking into the past, but then again every transition involves issues of legacy, heritage and the continuity of a family's vision and values. I am also becoming aware of how narratives and stories shape people's lives and relationships and this is something we need to look into more.

Among the differences of opinion between the generations, it could be difficult for a family to reconcile differing views about whether leadership authority and ownership control should transfer at the same time.

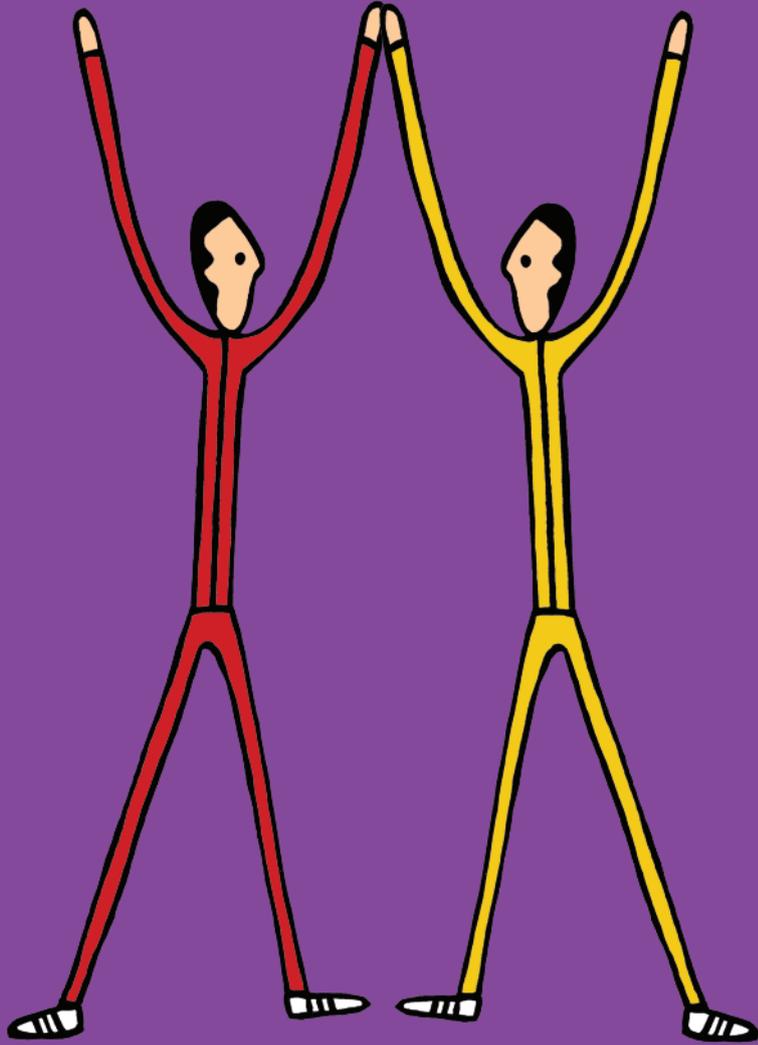
I was also initially a bit surprised that the NXG were less concerned than the Seniors about sustaining harmonious family relationships during a transition. I think that the business first attitude of the NXG reflects their ambition to take over and drive a business forward, and they don't want to let family issues form an insurmountable obstacle to making progress. From my experience I don't think this strong drive and ambition necessarily clashes with the 'family first' desire of the Seniors and that win-win solutions can be achieved that balance the needs of a business and a family.

To achieve such a desired outcome we need to listen to the advice about the importance of transitions (including retirement) being a well-planned process that take place over time and which involve adult-to-adult, inter-generational discussions. This must be very hard when the core relationship is parent-child as well as the strength of each generation's relationship with the "other" child, the business.

Since several participants commented on outside advisers, I have attached guidelines adapted from an independent work by some of the founders of the family business field⁴.

WIN-WIN SOLUTIONS CAN
BE ACHIEVED THAT BALANCE
THE NEEDS OF A BUSINESS
AND A FAMILY

4 Excerpted from How to Choose & Use Advisors: Getting the Best Professional Family Business Advice, Aronoff, C. E. & Ward, J.L. (1994). No. 6 in the Family Business Leadership Series; Business Owner Resources, Marietta, GA USA



BENCHMARKS IN ADVISORY SERVICE

The best advisors should have the following attributes:

- 1 Maintains up-to-date technical knowledge and shows strong interest in and commitment to his or her field.
- 2 Communicates openly in clear, simple language, helping educate family members when appropriate.
- 3 Seeks to know the family and the business in depth.
- 4 Understands how families work and how the family and the business relate to each other.
- 5 Gives advice that suits both the family and the business.
- 6 Initiates periodic meetings with the client for update and review.
- 7 Resourceful on clients' behalf, spotting opportunities and sharing information and contacts.
- 8 Shows empathy, patience and trustworthiness.
- 9 Willing to work with successor generations.
- 10 Raises questions about the future.
- 11 Promotes collaboration among advisors.
- 12 Gives honest advice, even when it may jeopardise the client relationship.

Warning signals or "red flags"

- 1 Fails to avoid conflict of interest
- 2 Fails to respect client confidentiality
- 3 Promotes dependency in a client
- 4 Works primarily in isolation
- 5 Is reluctant to deal with successors
- 6 Sells solutions rather than listening to problems
- 7 Ventures beyond his or her knowledge
- 8 Makes too many decisions for the client
- 9 Fails to foster good communication
- 10 Lacks empathy

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