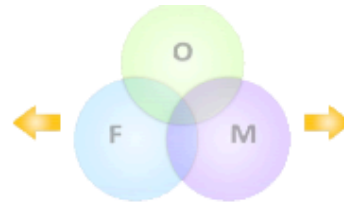


CHAPTER 5 - Succession and the Transfer of Power

The Ultimate Challenge

- A healthy business...
- A healthy family...
- That will continue from generation to generation



The CEO as Architect of Governance

Blurred system boundaries present the strongest case for the need to build institutions to govern the relationships among family, ownership, and management of the business

Unfortunately, the critical and urgent need to build institutions of governance is often lost on the CEO

What Kinds of Governing Institutions do CEOs Need to Build?

Research on best practices indicates that all of the following can play a role in improving the family–management–shareholder interaction:

- A board of directors/advisory board
- A family council
- A family assembly
- An annual shareholders' meeting
- A management team that includes a number of top-notch nonfamily managers

Only after constructing an infrastructure founded on these governing institutions can the CEO architect confidently proceed with his or her plan to transfer power to the next generation

The Transfer of Power

- CEOs must be the architects of the transition
- Transfer of power can be problematic when:
 - CEOs don't want to leave
 - CEOs fail to prepare next-generation members for leadership
 - Succession is triggered by illness or death of CEO
- Transfer of power must be uniquely designed for each family and business

Succession and Continuity

- Requires the CEO to be committed to the company rather than to their own agenda
- Must enlist the "right people" and then execute the right strategies to ensure both sustainability and continuity
 - "Right people" in the top management team and among the governors of the shareholder group
 - Complemented by board members and outside advisors

Future of Family Business in Canada

- Within 5 years, 27% of family business owners plan to change the ownership of their business
- More than 50% of which are planning to sell their company to private equity investors or management teams

Lack of Succession Planning: Reason for Concern

- It is estimated that in Canadian family businesses there will be a 78% change in leadership over the next 15 years
- Canada's family businesses have a combined employment of 4.7-million full-time employees and 1.3-million part-time with an estimated total annual sales of \$1.3 trillion

Planning Retirement Without Planning the Transfer of Power to a Successor

- While more than 50% of Canadian family business leaders plan to retire in the next ten years, 70% of respondents indicated that they have not yet selected a successor
- To complicate matters further 66% stated they have not yet established a process for selecting a successor

Failure to Plan is Widespread

- Only 40% of Canadian family businesses have a business plan
- Less than 25% have a long-term strategic plan
- Close to 66% do not have a written contingency plan in the event of death and this number increases for those who do not have a written plan in the event of disability

Canada's Retiring Population

- Canada's family business leaders are planning to retire in significant numbers:
 - 27% within 5 years
 - 29% in 6 to 10 years
 - 22% in 11 to 15 years
- Unfortunately, for the majority, planning for succession has not topped the priority list

Surviving Without Succession

- Despite the widespread lack of succession planning, more than 75% of today's family business owners believe that the continued success of their business depends on them and 44% believe their business may not survive without them
- This lack of planning is compounded by the fact that management responsibilities are not widely shared with other family members
- Only about half indicated that they frequently discuss business issues with their spouse or children
- 15% admitted that they seldom or never discuss business issues with their spouse and 20% with their children

CEO Exit Styles

- The monarch
 - Doesn't leave until forced out
 - Imagines no one could ever replace him/her
- The general
 - Leaves the office reluctantly and plots a return
 - Hopes the next-generation leader proves inadequate
- The ambassador
 - Allows others to learn the business first-hand and then eventually manage it
 - Holds on to their diplomatic or representational duties on behalf of the corporation
- The governor
 - Leads for a limited term, then moves on
 - Ensures their successor will be trained and ready
- The inventor
 - Returns to development activities
 - Takes a key position in another enterprise
- The transition czar
 - Provides active leadership during the succession process

Leadership Imperatives for the Current Generation as It Transfers Power

- The CEO and CEO spouse, as co-architects of family-business continuity, communicate their vision and commitment to continuity
- They help build institutions that will help the next generation govern the business-family relationship
- They exercise a trust-catalyst function in family communications and planning activity leading to a family strategy and a succession plan
- They also make a priority of the development of the next generation—from sons and daughters to CEOs and key management
- They help the next generation owner-managers build bridges with important stakeholders: other family shareholders, key nonfamily management, employees, suppliers, customers, local government, etc., and then depart

The Unique Roles of the CEO Spouse

- Factors that influence the role adopted by the spouse:
 - Relationship with the CEO
 - Knowledge of and interest in the business
 - Commitment to continuity of family participation
 - Perception of need
 - Ability to perform the needed leadership role
 - Availability of others to perform communication-promoting and trust-enabling functions

CEO Spouses...

- Are stewards of family legacy
- Keep "family" in family business
- Instill a sense of purpose, responsibility, and community in family members
- Embody a spirit of cooperation and unconditional support

CEO Spouse Role Types

- The Business Partner
- The Chief Trust Officer
- The Senior Advisor/Keeper of Family Values
- The Free Agent
- The Jealous Spouse

The Business Partner

- Is critical to the start-up and early stages of business through their financial investment or professional, technical, or administrative skills
- May then move on to a different role
- May be the lineal descendant of the owning family or may be a large shareholder

The Chief Trust Officer

- Provides the glue that keeps everyone united through the predictable challenges faced by families who work together
- Acts as a healer, mediator, facilitator, and communication conduit for the family

- May also take responsibility for family initiatives, like creating a family council, writing the family's history, hosting weekly or monthly family gatherings, being the contact person for facilitators of semiannual family retreats, and planning family vacations and multigenerational celebrations

The Senior Advisor/Keeper of Family Values

- Is similar to the Chief Trust Officer, but more than a relationship problem-solver
- Helps children understand the importance of business to family and nurtures a love for the business
- Often has no visible role in the business, enhancing respect and influence

The Free Agent

- Often aware of both family and business matters, but chooses to grow and develop a separate identity
- Usually available for consultation and advice during challenging times in the life of the family and the business

The Jealous Spouse

- Feels that the CEO loves the business so much it is his or her first priority
- Has to compete with the business for the CEO's recognition, affection, financial resources, and time, thus experiences jealousy
- May provide the motivation for greater delegation and professionalization of the business so that its success and survival depend less on the superhuman efforts of the CEO

Implications of CEO Exit Styles

- Monarchs and generals are the worst enemies of succession
- Monarchs and generals may be the reason why the average tenure of CEOs in family-owned businesses is more than double that of CEOs in management-controlled companies (17 vs. 8 years)
- Other exit styles allow for a generational transition to be planned and eventually executed

Canadian Family Business Leaders

"Unlike their U.S. counterparts, who generally view the business as a legacy to succeeding generations and intend to keep it in the family, most Canadian family business owners seem more concerned about how the business will benefit them. They see the generation of wealth as the primary role for the business; keeping the business in the family is a lower priority."

- Prof. Jim Barnett, director of the Deloitte & Touche Centre for Tax Education and Research and the Master of Taxation program at UW