Successful Succession Planning for Family Businesses: Patricia Angus Leads the Way

Succession planning is one of the most important – and often one of the most sensitive – exercises for family businesses. Owners need to consider emotional, relationship and identity issues inherent in succession planning, determine who inside and outside the family should be involved in the company and clearly communicate the plan with the family and company – all while preparing themselves for the next stage of their lives. For more insight into the process of succession planning for family businesses, Brown Brothers Harriman recently sat down with Patricia Angus, the founder and CEO of Angus Advisory Group, an adjunct professor at Columbia University and a founder and co-director of Columbia Business School's Family Business Program. In her various positions spanning more than two decades, Angus has advised countless multigenerational families on the complex issue of succession planning. The following is an excerpt from our conversation.

Brown Brothers Harriman: How did you start working with family businesses?

Patricia Angus: I began my career as a lawyer in the corporate area of an international law firm. At one point, I was working on a family-owned business transaction. I fell in love with working with families, and I've worked exclusively as an advisor in this area since. I now have a consulting practice and advise complex multigenerational families on their goals to help them succeed across generations, typically meeting with two or three generations at once. I also helped found Columbia Business School's Family Business Program, where I have launched two graduate courses. I can't get enough of it!

BBH: When should a family business owner begin thinking about succession planning, and what are the key considerations to keep in mind when starting?

Patricia Angus

PA: On one hand, owners cannot start thinking about succession too soon. On the other, it's difficult to feel they are making progress if they start too early. Owners have to think about how they define succession planning, its goal and who needs to be involved. There's often an assumption that succession planning merely involves finding the next CEO and handing over the title, but it's a process that encompasses many different factors.

The first is ownership. This includes looking at how the business is currently owned and the path for future owners. Owners need to examine their estate plans – what is included in their wills and who will inherit their shares. Determining the transition of shares and values is often a family decision, which can be more complicated than doing one's own plan.

Then, there's the CEO component. While owners can think about CEO succession in advance, it's difficult to implement a plan early on. For example, a startup's greatest challenge is survival, so when it is mapping out its first one to five years, thinking about a successor CEO is likely not going to be the top priority. It may take some years before the company is stable enough for the owner to think about who's going to take over next.

The leadership succession planning process involves asking where the business is headed and what kind of skills it will need. The family also has to figure out how important it is for a family member to be the successor. If it's very important, the successor needs time to acquire the necessary skills and experience for the business today and for the future. It's also necessary to have conversations around a potential successor's interest level, because if it's not there, it's not good for the business or the family. When family businesses identify a family member successor, they'll want to start the process of preparing and supporting that person in developing the necessary skills several years before the CEO plans to leave, as well as communicate the plan internally.

BBH: Has the speed at which businesses are now moving created unique challenges for the next generation of the family who may run the business?

PA: If founders insist that the business has to continue the way they created it and are only looking for successors to do that, it's going to be a challenge for everybody because the younger generation grew up in a different environment and has different skills. This attitude can generally thwart not only the family, but the business. However, if founders see that there will be change in the future, often they're far more open to the abilities that their family members have. When there are younger family members who have new knowledge and skills, it's an incredible opportunity to leverage those and keep the business alive in a new form. If both sides can recognize that, it works really well.

BBH: What unique issues arise for family businesses during succession planning?

PA: It's impossible to look at a family business without thinking about identity issues as well as the emotional and relationship aspects of planning.

I'll start with the identity side. It's usually difficult for founders to imagine their identity being anything other than that of the person running the business, so they have to be honest about who they are – with and without the company. Conversely, when I ask founders' children when they were first aware that they had a family business, often their response will be "in the womb." The children and grandchildren of a successful family business have been thinking about this forever. The fact that people create their identity around the company and think about it all the time on a subconscious level makes it very different from a non-family business.

You can ask family members why they work in the family business, and the word "love" comes up frequently – they love their family and want to contribute. Often they'll take lower salaries than they could make elsewhere, so there's an emotional component that has financial implications. There may be people who have contributed to the business without a salary. Family members may have illiquid shares of the business. They are committed in a way that is financially, legally and emotionally far more complex than in a non-family business.

In terms of succession planning, people often will conflate family with business. They may feel loyal and committed to their family and not want to let them down, but they also do not know whether they are right for the business. That's a challenge – especially for someone who is the only member of the next generation.

Having multiple children or cousins working at the company can present a different set of challenges because CEOs have to start looking at who has the most relevant skills and qualifications. That's when bringing in outside advisors can be helpful. It's difficult to be objective about family to begin with, and putting an unqualified, unprepared family member into the leadership role will thwart the business potential and possibly create resentment in the family.

Families also have to be honest about the real goal. Some are willing to accept lower returns on their income and the business's value because they want the family to run it. If they decide to take people who may not be the most qualified, they're going to have to acknowledge that that's a tradeoff.

BBH: Should family businesses outline policies for hiring family members?

PA: Yes, the family has to determine what is important to the family and the business and develop a policy around that. For example, if a founder is looking at family employment and believes that being a family member is the most important criterion, he or she is going to choose a family member over a non-family member when both are equally qualified. On the other hand, if the company is a meritocracy and wants to make sure it's competing on the highest level globally, and an outsider is more qualified for a position than a family member, the outsider is the one who should be hired.

Many families are heading toward a policy that requires family members who want to be in the business to get outside experience first, and some are saying they must have been promoted to show that they proved themselves elsewhere. A lot are also requiring that family members have a graduate degree before they can come into the business at any level. Each family is different.

The worst time to set a policy is after a few family members have joined. Founders want to avoid having other family members who want to join afterward but might not meet the requirements. If they change the standard after the first person(s), it's difficult for people to accept it.

BBH: How do family businesses attract and retain outside professionals?

PA: Outsiders are coming out of competitive environments and are very aware of compensation options, so if family businesses are trying to attract non-family members, compensating them properly is critical. One of the ways to do that beyond base salary is to create phantom equity to tie that person to the company. Shares in a privately held family-owned business are generally far more valuable to family members than non-family members, so finding a way to equate the increase in value that is related to a non-family member's input helps with retention.

Beyond compensation, family businesses want to find people who align with the family's culture. There have been studies on the success and satisfaction of non-family managers, and a critical factor is whether they fit in culturally.

On the succession planning side, attracting and retaining qualified people can be difficult if there's an assumption that a family member will always hold the CEO position. If a family business communicates to non-family members in advance that they are not going to be CEO but that the company wants them to be CFO or COO, for example, and will give them a commitment on the financial side to make up for the fact that they won't have the equity that the family has, those people are more likely to remain motivated and involved.

BBH: Talk about the importance of communication in succession planning.

PA: Family businesses need to consider how they approach communication. The worst-case scenario is that decisions get made and nobody knows how or why – and it's especially bad if the decision's consequences are negative. A family business needs to find a way to create a forum for communication around succession planning and other family and business matters so that it becomes an ongoing process.

On the CEO side, there must be communication between the current leader and the potential candidates around what qualifications the business is looking for, who is going to decide on the replacement and the timeline. That's where a board can be useful. The CEO can use it as a sounding board for what he or she is thinking – it shouldn't just be a unilateral decision that is then communicated to everybody else.

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Beyond communicating the criteria and timeline, it is important to take into consideration the family element. Having an organized mechanism such as a family council to communicate to the broader group is key. A family council stays on top of what's going on with the board and CEO so that the family will not be surprised about succession planning decisions.

BBH: How can family businesses create a corporate governance infrastructure, and how is that helpful for succession planning?

PA: There are two governance levels for family businesses: corporate and family.

On the corporate governance side, family businesses often come to me and say that they don't have a board. However, they typically do have a governing body outlined in the governing documents – it's just an underutilized area for family businesses because so often they are focused on the day-to-day management. Family businesses need to look at the long-term strategic plan too, and the board assists with that. The board can help determine what's on the horizon, identify how the business is going to get there, warn of possible obstacles and provide guidance and oversight to the CEO.

If it's a fiduciary board, it is responsible for ensuring the company is accountable to the shareholders. Family businesses often get caught up in management issues and forget that shareholders have a right to information. The board can serve as that interface.

There are also advisory boards, which family businesses often use to bring in industry experts and additional perspectives.

On the family governance level, many families already have trusts and structures in which they have created positions of responsibility and authority in trustees who may or may not own shares in the business. Recognizing what those roles are and ensuring those individuals are educated is critical to good governance.

Family assemblies and family councils can be helpful. Very often success is defined as the success of the business, and family members who are not in the business feel as though they're not valued, so having that forum for people to come together to exchange ideas, share where they are in their lives and discuss issues is critical. Some large multigenerational family businesses also have weeklong meetings where they have activities, interest groups and education sessions through that family governance mechanism. Formal family governance may include a family council, which could include representatives from the larger family and ownership group, and they can interact with the board in making sure that the family's voice is heard.

BBH: How can founders approach retirement to make it successful?

PA: Often, when people look at family businesses across generations, if the business fails, they blame it on the younger generation. However, a critical part of success is what happens with retired CEOs and what their relationship is to the business and the rest of their lives. The most successful CEOs think long and hard about what's going to happen after retiring. There's a critical period following retirement, after which if they haven't figured out what they're going to do, they may come back and cause issues within the business rather than support it.

CEOs have to identify their interests and understand "who" they are beyond the business, so coaching is important. Also critical is building a network of people who have made it through that transition to retirement. Those who are most successful have been able to develop an identity outside of the business, and it has to be an intentional process.

BBH: Thank you for sitting down with us to share your expertise, Patricia.

Interview conducted by Jake Turner, and article written by Kaitlin Barbour.

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