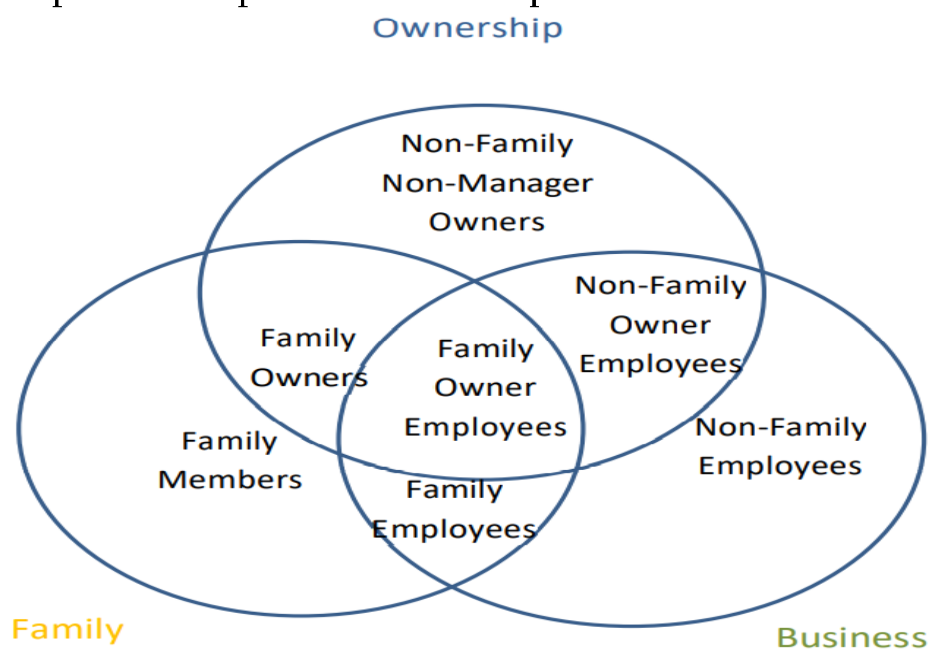
SESSION 5 – ON FAMILY CONSTITUTIONS, SHAREHOLDER AGREEMENTS ETC.

A) THE 3-CIRCLE THEORY

To delve deeper into the need for Shareholder Agreements, Family Business Charters and Family Constitutions, let us begin where it all started – the propounding of 3-Circle Theory by Taiguri and Davis, and subsequent work in refining it. The pictorial representation is reproduced below for convenience.



Source: Taiguri & Davis

As you may notice, the 3 pillars in the theory are 1) Family, 2) Business, 3) Ownership. Therefore, the key to any discussion around Family Businesses must be from the basics. What does each term mean? Let me attempt to share a few experiences to highlight the issues.

A) Circa 2014 – My team and I were engaged in discussion with a family where the 4th generation is now managing the business. At the 3rd generation level, the family had gone through a partition to give sharper focus to each family unit running their family businesses. Few, if any, linkages remain among various family units at business ownership level. This family unit had got a Family Constitution written from a well-known expert, and my team and I were helping the family with setting up Family Trusts.Question started about the definition of beneficiaries and what would their respective status be. The family was very clear – in the Family Constitution we have defined the patriarch (Mr. X), his wife, children and Lineal Descendants as family and we would like that to be put there in the Trust deed. Seeing my hesitance, Mr. X asked me about my views. We asked a few questions, of which a couple are reproduced below:

i) What happens to a family where the lineal descendant working in the family business dies leaving behind wife and minor kids? You expect the wife to bring up the children as heirs but have no rights of her own in the Trust. How would this affect her financial security and impact her behaviour towards the family? What beliefs will she pass on to the minor children? Would this sow the seeds of partition?

ii) If all daughters-in-law were to be treated the same way, then why was Mrs. X, being a daughter in law herself, exempt from such treatment?

B) I was introduced to Mr. Y, a successful first-generation entrepreneur, by a mutual friend. After multiple rounds of discussions about the evolution of the group structure, we reached an impasse where things stayed for almost 2 years. The impasse centred around two issues.

i) For the purposes of his family businesses, he wanted his son's children, who were in the custody of son's divorcee wife, to be automatic heirs to his son's share but didn't want the divorcee wife to have any say in the ownership or management decisions of the business.

ii) He wanted his 2 daughters to be passive shareholders but with no rights to any decision-making on ownership issues attached to such shareholding. On both these counts, my observation was that, knowing his son, give unrestricted power to him over the voting rights was not going to be fruitful, and it would only lead to disturbing the filial relationships.

C) In 2013, I was introduced by a Wealth Advisor to an industrialist. After a few discussions, one of the key items our team identified was the leverage the client's business was running and the personal guarantees furnished by him. We advised the client Mr. Z to safeguard himself and his family and to implement an Asset Protection Trust. Needless to say, the advice was ignored as the business was doing great. Two years later, got a panicked call asking me to meet him within the hour, if possible. After re-organising the schedule, reached there to find the client in high distress. His personal house was going to be possessed by the bank as a result of encashing the guarantee.

In all the above scenarios, the following basic things stand out:
1) What is the definition of Family?
2) Who among the family can be owners?
3) What are the rights of those owners, and what are their rights vis-à-vis the management is required?
4) Who is the manager, and what are his rights and responsibilities is required?
5) How is the family safeguarded from business risk?

6) Where is the family fund deployed? Most of the balance part of this note deals with one of these pillars/circles. But let us first understand each of the 7 areas represented in the 3 circles, and the key issues of interest to them.

B) SEVEN ROLES IN A FAMILY BUSINESS

1) Family Members – These are family members who have no ownership stake and no direct linkage with the business. In the Indian context, this would typically be spouses of sons and daughters, and perhaps daughters themselves. Since their linkage is passive, their involvement is also usually passive. However, their cultural underpinnings provide the bedrock for attitudes and grooming of the next generation. In one family I know, the spouses of all the sons come from families which are not into business. These persons are used to a certain lifestyle of regular work hours and the Saturday and Sunday usually being off-days. This has led to a latent resentment about the work habits of the family members involved in business, who never seem to take a holiday. Due to this, barring one member (who is a Normative Heir), none of the next generation has joined the business. Also, financial security is paramount for such members.

2) Family Employees – These are non-owner family members who are employed with the business. They have complex relationship. They may be from the next generation - members who are being groomed to be owner managers one day, or they may be from the extended family who will not become owners but are working in the family business as Imperative Heirs. The management of such family employees is key. On one side they can be very influential and key members contributing to the family wealth, and on the other they can a source of constant issues. One of the most famous examples of this type is from Mahabarat – Shakuni. He was a family employee who was constantly there but with one agenda only.

3) Non-Family Employees – Persons employed in the business other than family may feel the presence of a glass ceiling. This may hamper the family business from attracting the best professionals. On the other side, the founders typically start with a set of initial employees who remain with them throughout their life as loyalists and confidantes. These employees may have the tendency of becoming power centres in their own right. This vitiates the organisation culture and may have the effect of hampering the growth of next generation as well.

4) Non-Family Owner Employees – This group may consist of persons who have been given stock-options, sweat equity, or are simply friends of the family who plumped money when the founder was first starting out in business. Over time, out of a sense of loyalty, their family members may have been given employment in the business. It is very tricky to manage these Employees, and an Owners' council with clear communication strategy goes a long way.

5) Non-Family, Non-Manager Owners – Comprised of PE Funds, and other stakeholders who have not worked in the business and will not be employees but are important stakeholders. They may, in some cases, hold the right to a seat on the board. Shareholder Agreements, Owners' council and a clear communication strategy are usually the way to deal with their interests.

6) Family Owners – Persons who may have worked in family business in the past, or those who may not have worked at all. The key issue with them is diffused social identification with the company, leading to weak ties to the shareholding. In any hostile situation, they may be the first to sell their stake. In addition, being from the family, their expectations are usually higher than that of other owners.

7) Family Owner Employees – The core – the persons who straddle all three circles. An alignment of vision, values, leadership and governance is key for this group. There is a strong sense of Socioeconomic wealth they derive from the business. This is both a source of strength; but if the vision and values are not aligned, it is also a source of weakness. Business Protocols and Family Business Board Meetings are the way to deal with issues arising in this area.

C)THE FAMILY CIRCLE

This is perhaps the most important and least understood circle. Family businesses are distinguished from non-family by the presence of this circle. Family is supposed to provide strength, and yet can be the biggest source of weakness as well.

Leo Tolstoy posited in Anna Karenina – "All happy families are alike; each unhappy family is unhappy in its own way." Various interpretation attempts have been made at analysing this deceptively simple statement. Our take is that all happy families are alike as they all share commonalities which make them happy. It is not that the way they live, the way they run their lives, treat people around them is alike, but that they all share some de-minimus traits which makes them happy. Various researchers have argued the importance of Values in such happiness.

Our surmise is that these happy families are happy because they have learnt to successfully manage out the issues that lead them to unhappiness. We have compiled the following questions that need to be answered in the Family Circle:

1) Who is a family member?
2) What are our family values?
3) How do the family members live these values?
4) What happens if a family member steps out of these values?
5) How do we integrate new members into family and inculcate these values? Do we adopt some of their values as well?
6) How often do the family members meet each other?
7) How do the family members interact with each other? Is it hierarchical or equitable?
8) How do family members take up unpleasant issues?
9) What is the dispute resolution process?
10) What is our family wealth? What is its source?
11) What are the traits which a family member should exhibit before s/he is inducted into the business?
12) What is the family's social and political network? Who is tasked with maintaining and building it?

The above is not a comprehensive list of questions, just some of the key one's. The focus in this circle is on creating family togetherness, bonding and happiness through effective methods to create a positive atmosphere.

In the first phase, most founders err by assuming that what exists in their presence will continue to exist in their absence, and do not take enough care to build family interactions independent of them. This is equally true of males and females. For example, I am advising a family where the son has separated from his wife and it is irreconcilable. However, the patriarch felt strongly for the daughter in law and continued to house her at the family home.

This led the son to move out, and the other children to stop visiting the family home. While recognising father's emotions in the matter, we counselled him to recognise that his son was unlikely to continue to house the daughter in law in the same house after his demise, and therefore fulfil his duty to daughter in law by buying a separate property. This was done and things have become better at home and business.

At heart of this is the theory of Transaction Analysis, a theory propounded by Dr. Eric Berne. In it he identifies 3 mind states in any person. These are:

i) Parent
ii) Adult
iii) Child

Each person tends to interact with the other through one of these states. These interactions are called Transactions. Dr. Berne identifies the following main type of interactions:

1) Complementary – those transactions where the mind states of both parties are aligned with each other. Eg. A interacts with B as a parent and B interacts with A as a child, or both interacting through Adult States.

2) Ulterior – a transaction where there is a hidden motive. E.g. – A interacts with B as a child, but the expected outcome is that of an adult. This is the core of manipulative behaviour.

3) Cross – a transaction where both parties are talking at cross purposes. Eg. A. interacting as a parent, and B. answering as an Adult.

The interaction levels and type in Families depend a lot on the family structures, the relationships that developed during the childhood and teen years, the overall empathy within the family.

The advisor needs to diagnose the inter-relationships and assess whether it is possible to mend any ruptures and conflicts. If the interactions are at a cross, it may be possible to mend them by bringing in experts in the field, however, if the interactions are ulterior, it may be very difficult to bring amends, and it may be better for the family to have a break and to start afresh as new independent family units. These may or may not include business rupture or business division.

Required reading: Transaction Analysis by Dr. Eric Berne

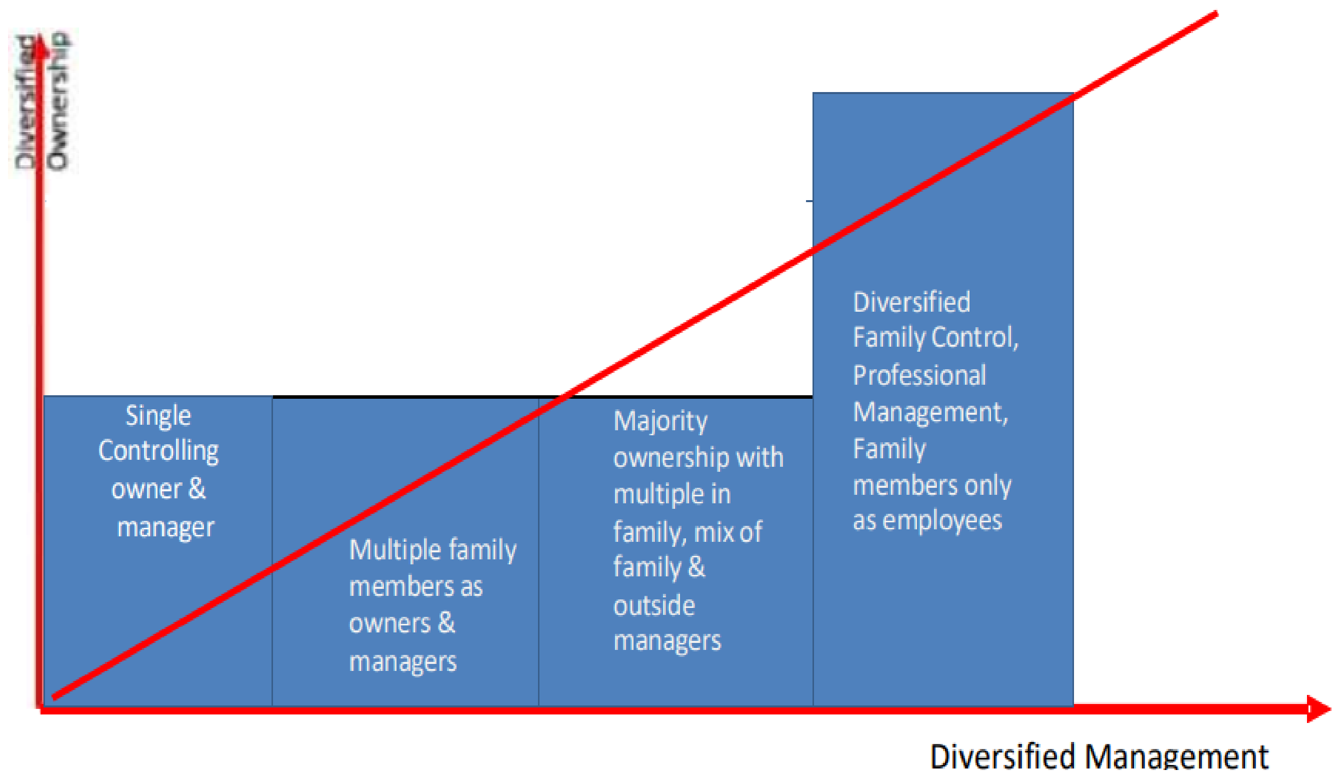
D)THE OWNERSHIP CIRCLE

The ownership circle begins with defining what constitutes family business. Do all the businesses in the group qualify as family businesses, and what will it take a new venture to define as family business. Families need to ask themselves: Does the family exist because of the business, business exist because of the family, business and family exist on different planes, or business exist despite the family?

The answer to this statement will define the Family's policies with respect to Board composition, family member's employment, employment of professionals, remuneration policies etc.

Lifecycle Theory shows that each family business traverses through the following stages:

Figure 2



The choices a family makes on the aforesaid 5 dimensions will depend on the stage they are in the life cycle and the journey they wish to embark on. Quite often a family may not have discussed this journey, their vision for themselves and the business in detail. The advisor needs to work with them to define the desires.

Quite often the first stage is symbolised by the centre of the universe approach. The single owner has built the business from scratch and all the decisions are centred around him/her, with very little delegation to other family members or professionals.

By the 2nd and 3rd stages, issues from agency effect start rising up. The family members, unless there is strong sense of stewardship, display a strong agency effect, that is they start asking – What is in it for me?

This agency effect is most visible in the members running the business but can manifest itself also in members not playing an active role in the business. While the causal effect is usually the feeling of being an outsider, such passive members start questioning the financial effects of their continuation in the ownership circle, and whether they should sell their shareholding. Focusing on financial effects may not yield the desired satiety in the selling shareholders or the others. An ownership alignment exercise needs to be carried out to ensure that the whole family is onboard the strategic choices, the management processes, the employment policies etc.

The current generation also need to make their choices on the type of succession policies they will follow. The broad choices are:

1) Selective – Under this model, an heir to the managerial post is selected, groomed and mentored. This person is vested with all the powers and responsibilities of the next business leader from the family. It is worthwhile to mention that in Japan there is the practice of Mukoyoshi, where the groom of the daughter is chosen. The groom is then adopted formally as the son with an active view to make such a son the business heir. This adoption severs the ties of the adoptee with his biological family. As a sidelight, the two longest surviving family businesses are from Japan. One of the most famous examples of Mukoyosi is Osamu Suzuki.
   A similar practice existed in Jains and Marwaris which are the only communities among Hindus to permit adult adoption.

   This practice focuses on the needs of the business, puts it at the centre by admitting that the continued prosperity of the family is dependent on the business and the business needs clear leadership. The family shareholders typically, through legal structuring, are beneficial owners but the voting power vests in the selected heir.

2)Integrative – Under this inheritance model, all the children inherit, quite likely, equally, the shareholding in the family business(es) Quite a few of them may also be, but not necessarily, employed in the business in various capacities. Most Indian businessmen exhibit this form of inheritance. Each family member is the beneficial owner and exercises voting power as well.

3)Representative – This is usually practiced by larger families with multiple branches. Typically, the shareholding/ownership, either directly or through legal structures like trusts, vests in one representative from each family branch. This has the advantage over Integrative model as it means less fractious holding, a tighter control on shareholding, and protection from forced sales.

4)Re-founding – Under this model, each successive generation assumes charge of, perhaps, one business unit among many, and acts as the founder of the business unit with complete and absolute control like a Single Founding owner.

5)Transactional – Under this model, rarely practiced in India, each generation sells their shareholding to the next in return either for a lump-sum or, quite often, for an annuity payment. This is quite like the Re-founder model, except that each generation has to buy-out the previous one. This transactional model itself may take either the Selective, Integrative or the Representative approaches described above.

Whichever model is adopted, it needs clarity of approach, open communication and clear thoughts about the evolution of shareholder control and voting and other rights.

The above models are equally applicable in the Management Circle as well. Additionally, based on the relationships and stresses it may be advisable to choose a mix of Transactional and Re-founder models. If the advisor determines that business is going to suffer from focusing on togetherness in business, it may be better to partition the business with or without a family partition. Some families will, post a partition, go back to where it started – a Single Controlling Owner.

Suggested reading – 1) Family Business Ownership: How to Be an Effective Shareholder by Craig E Aronoff and John L Ward. 2) The Family Business Map by Morten Bennedsen and Joseph P H Fan.

E)MANAGEMENT CIRCLE

Empirical research repeatedly shows that Family Firms behave differently than non-Family Firms. This is explained by the non-financial wealth, ie. the socioemotional wealth families derive from the business. Family-owners derive socioemotional wealth from several sources, including having the family name associated with their firms, emotional attachment to the firm, and the satisfaction of family members working for the company (Gómez-Mejíaet al., 2011). Thus, executives in family firms are not purely driven by financial factors, but also socioeconomic ones. This influences 5 dimensions:
1) Strategic Choices
2) Management Processes
3) Organisation governance
4) Stakeholder relationship
5) Business venturing.

The Founder often instinctively plays all these roles and builds an organization centered around himself. Most entrepreneurs are stubborn, dominant people – the traits which help them succeed, however, quite often they are also autocratic persons. The usual leadership style shown by them is thus autocratic style, with very little appetite to listen to others. However, whoever they do trust, they trust completely. On the one side, this trait sets them up for success, and on the other for failure. Needless to say, this autocratic style usually permeates their personal life as well.

A movement from the founder to the next generation thus becomes a tricky one, as the Succession is required not only at the ownership level, but also the family, management and governance levels. Most founders expect their next generation to follow them in the management and expect them to continue with their values, practices, and styles. This becomes a minefield, and leads to lot of angst which may, at the extreme, manifest itself in the next generation deciding not to join the business management.

Broadly, there are a two leadership styles – Autocratic and Participative, with a wide spectrum of styles in the middle. A manager may be autocratic in one dimension/function, but participative in another. This may be classified as Situational leadership. For an advisor it is essential to identify which of the leadership styles and personalities is exhibited by the actors in the field.

In one family that we were assisting, this was a major flashpoint between a father and a son, with the daughter play the role of the mediator. Father's view was that this how I have successfully run the business for 30 years, how can my son, who has no experience of running any business, come and challenge what I have done and seek to change it.

The son, being an equally aggressive personality, who studied business management in US, and had gained work experience at multinationals, was equally adamant saying – "what has worked in the past doesn't mean it will continue working; if this is all mine to inherit one day, then leave me to run the way I want to". It took over one year of interventions to arrive at a mutually acceptable formula and achieve peace.

As Sharma and Irving posited, the following types of Successors are possible.

1)Affective – These are the successors who want to join the family business, are bursting with ideas and usually take the legacy forward. Blessed are the founders who have such successors; and cursed are the founders whose successors also exhibit an interest in joining the business and an autocratic style.

2)Normative – These successors are ones who feel they ought to join the business, primarily due to family compulsions and expectations. They join out of a duty to the family, and usually find their passion in some other hobby they cultivate. The business performance doesn't suffer, but it doesn't expand as well. They are also the persons who are least likely to sell their ownership out of filial loyalty.

3) Calculative – These are the people who are the right opposite of Affective heirs. They don't join the business because they want to, or must join, but rather because they feel they should join to protect their legacy. All the actions that they take are directed toward protecting this legacy. For them the Socioeconomic wealth is much higher than the financial worth of the business.

4) Imperative – These heirs are those who feel they need to join the business, as they have no other avenues of employment. They are usually low on self-esteem, may exhibit timidity, and couch it as participative leadership. It is likely that they are submissive persons, who may just about hold the baton before passing it on to the next generation. If there are multiple siblings all of whom display the same normative behaviour patterns, or are coupled with Calculative types, after the removal of the founder, they may find it hard to arrive at decisions, affecting the business negatively.

In the Management circle, therefore, one needs to plan the managerial succession by overlaying the types of heirs with the most appropriate succession model out of the ones' given under The Ownership Circle". For example, pairing two Affective Successors with an Integrative model or Representative model may be sowing the seeds for infighting and resultant negative effect on business performance.

Similarly, if one is faced with Imperative Successors, it may be ideal to effect change in the Management Circle by bringing in professionals and choosing the Selective Model of Succession.

However, just bringing in professionals doesn't help. There are families which have brought in professionals, either at Board or the CEO level, only to stop the experiment as they didn't work. For such professionals to be effective, bring them in is just not enough. The organisation culture, value systems, performance assessments, delegation of powers, everything needs to be re-aligned, else professionalisation will be a still-born child.

One last point, one needs to also assess the familiness of the firm. The more the family identifies with the firm, the more its dependence for socioeconomic wealth, the more imprint the family will have on the firm's culture, values, systems and processes. The more the imprint the harder it is to change the culture and professionalise it. Each item needs to be studied in detail to arrive at a Management Succession plan, whether to family members or to professionals.

Suggested Reading –
1) Isn't it Obvious by Eliyahu M Goldratt
2) Culture Craft - Change in a Jiffy by A W Jones.

F) SUMMATION

A good Succession Plan mustfocus on allthe circles together. The plan is ultimately bound by 4 corners, which must be planned. These are:

1) Values
2) Vision
3) Leadership
4) Governance

I am sure the readers would have heard the tale about Shivaji where he, after suffering multiple defeats from Mughals, takes refuge in an old woman's hutin a far-off village. The old woman sees him burning his fingers when he tries to break chapati from the middle. She laughs and tells him not to be like Shivaji, and to break off the chapati at the corners first.

Similar is the case of Succession. A good plan will focus on breaking the four corners of the succession conundrum, before going to themiddle. We discuss briefly each of the four corners of Succession Plan briefly.

1) Values are an important part. If the values don't match, then there is bound to be stress. For example, in a family I worked with, the elder brother would not touch any non-vegetarian products, alcohol etc. He would eschew all kind of parties. When the younger proposed investing into certain companies which were engaged in liquor and meat trade there was tension. It was resolved peacefully ultimately as the investment was not going to be a core business but could have easily ballooned if it was core. Marriages and deaths have an effect on the Value Systems of individuals as do the cognitive biases built by individuals due to their own individual experiences.
2) Similarly, Vision is an important part. In the time of the founder or the current generation, Vision is usually defined by the elders of the family. However, each generation has to renew and rebuild the vision they have for the family and for the business. Values affect the Vision in a major way. If the family can't arrive at a common vision, it may be better to use the Re-Founder Succession Plan over any of the others. This may still allow for joint ownership, but divorce at the managerial level.
3) Leadership – As important as values and vision are, it is the leader who implements these. It is important to assess the capabilities, and by using psychometric and behavioural tools also assess the EQ of the individuals, their leadership styles to arrive at the right mix of the Succession Plan.
4) Governance – After we have finalised the Values and Vision, decided the Succession Model, chosen the leader, the last corner is to affect changes to the Governance platform which has been built by, and for, the current generation. This is the hardest part as it is the most tangible part. Most business owners falter here as this is manifestation of power and control passing on from them to the next generation. The example of Narayan Murthy is an apt example here.

A person who built the organisation from scratch, a celebrated business leader, constantly and publicly clashed with the chosen managers, leading to under performance in what was not even a family firm. Governance models are key to move forward, and a stepwise model needs to be developed in consultation with older generation in order to ensure the changes are affected smoothly.
A well ironed MIS system delivered transparently and on time at pre-defined intervals helps. Similarly, bringing in non-family directors on Boards of companies helps in the younger generation express themselves. In a paternal culture like India, where respect for elders is drummed into the children, the next generation usually finds themselves constrained to express their views openly. If this fire is let to simmer on for long, there is bound to be pressure build up, and an eventual explosion.

Another important factor to keep in mind while developing Governance model is the Agency effect. Simply put, the principle expects the agent, and, under law, the agent is required to, act in the interests of the principle. However, this may not always be so. An example of this is the high executive compensation prevalent in global banks prior to 2008. This compensation system was lopsided so that the managers put the short-term stock performance ahead of the overall health of the bank. Care needs to be taken to design compensation and governance structures to ensure the agency effect is minimized.

Given below is a summation of the tools used to plan succession in the aforesaid circles keeping in mind the four corners.

1) Family Circle
   a. Family Constitution/Family Charters
   b. Vision Statements
   c. Trusts

2) Ownership Circle
   a. Shareholder Agreements
   b. Family Business Protocols
   c. Family Business Maps.
   d. Owner's Council
   e. Trusts/Wills etc.

3) Management Circle
   a. Delegation of Power Documents
   b. MIS
   c. Family Employment Policy
   d. Board Composition & Entrenchment rights.
   e. Board Role Documents
   f. Board and KMP KRAs and Performance Assessments.
   g. Articles of Association

1(a) Family Constitutions and Charters. These documents focus on creating alignment in values and visions within the family. Family Constitutions are very wide documents covering, inter alia, elements of Shareholder Agreements and Family Business Protocols as well.

However, the focus here is on the family. Creating a Family Council to focus on values, bonding and togetherness. A list of items generally included in Family Constitutions is attached for your reference. However, this is a complex instrument, and the process of writing is as important as the actual document.

A Constitution should be a counter-revolutionary document, in that it should discourage revolutionary change and, therefore, have the capacity to assimilate within itself small changes and effect variations so that it survives over generations.

An advisor should remember that his/her role is that of a Facilitator and not of a drafter. He has to facilitate discussions and capture the decisions arrived at by the family.

Also, a Constitution is a living breathing animal and not a document. Unless the family believes it, lives it and embodies the values, the FC is of no use. I have seen families, who having once written the Constitution, stop applying themselves to upholding it and defending it. The result is that the Constitution becomes just another piece of paper.

1(b) Vision Statements
Even if a family doesn’t write a full-fledged Constitution, they should get together and agree on a Vision Statement for themselves as a Business family. This gives a direction in which the family wants to progress. This can be done either internally or families can seek the assistance of trained coaches for this.

1(c) Trusts – Trusts have been discussed at length in the previous session. Trusts are an important tool for a family to inculcate stewardship by separating beneficial ownership from voting power; and to provide for a Wealth fund which is protected from the vagaries of business.

2. Ownership Documents:

a) Shareholder agreements – These typically cover items like sale rights, entrenchment rights, dividend rights etc. The usual clauses cover:
a. Rights of First Refusal – the pre-emptive right to shareholders to be offered shares which any of the persons entering the agreement is desirous of selling.
b. Tag along right – the right to any shareholder to tag along his shareholding with that of any shareholder selling his holdings to a 3rd party.

c. Drag Along rights – the right to the selling shareholder to drag along the other shareholders and offer their holding also for sale.
d. Entrenchment rights – the rights entitling any shareholder to nominate a fixed no. of persons on the board of the companies.
e. Valuations – the valuation methodology, discounts and payment mechanisms are covered here.

b) Family Business Protocols – These documents go a bit beyond the Shareholder Agreements. Apart from covering items in shareholder agreements, they also cover the family's vision for the business, the employment of family members, their mentoring, performance assessment, manner in which the family will decide among themselves about voting for various important items. As per our understanding, there are close to 25 such decisions which may be part of the Family Business Protocols.

c) Family Business Map – this is a chart developed for chalking out the strategic direction of the Family. Figure 2 above portrays one version of this Family Business Map. The basic idea is that the Family surveys its assets, the requirements of the business, what these family assets can contribute to the business, and whether the business would be better served by inducting professionals at the business level. An overlay of the industry future and dynamics can help in refining the FBM.

d) Owner's council – This tool is typically deployed when the ownership is diffused and doesn't lie with one family but rather multiple families. In such a case, an Owner's Council helps in creating a forum where vision can be agreed, business strategy can be settled, and performance reviewed and critiqued.

e) Trusts/Wills – We have already discussed these in detail in previous sessions. Trusts and Wills have the effect of transferring the ownership only. However, these ownership Transfers should be done in line with the Family Charters/Family Business Protocol/Family Business Map.

3. Management Circle

This is the most complex circle to plan for. Not least because usually the current generation of Family Owner Employee is loath to give up control and resists any managerial changes that the next gen wants to bring. While the list of items to be planned under this is given above, the tools to work in this case are more to with organisation theory and organisation culture than for succession. The key tools are:

1) Developing Key Result Areas (KRAs) and Job descriptions (JDs) for each position.

2) Mapping out the responsibilities and authorities to cast on the position.

3) Psychometric and EQ testing of the next generation.

4) Matching the right person to the rightjob – irrespective whether he is from the Family or not.

5) Creating organisation structure to provide space for Family members to exercise control.

6) Developing processes and decision support systems.

7) Calendarizing important review meetings.

8) Writing a Board manual clearly laying out the charter for Board members i.e what do you want them to do for you.

9)Developing an independent Board member induction matrix.

10)Developing a Family office to track business performance vis-à-vis industry.

As you may observe, these are more process and not structural requirements. This is a multi-year process which needs a lot of commitment from the current generation.

A Good Succession Process marries all the circles to give an all-encompassing plan to clients. Leaving one circle unattended means that the succession process is not complete. Equally important is that once the Plan is in place, it should be reviewed and fine-tuned periodically.

Family Charter