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Create a Seamless Succession Plan for Your Family Business

The future of your company depends not only on whom you leave in charge but also on the tools you create to help transition the business.

By Matt Alderton

Sandra Westlund-Deenihan is a third-generation family business owner. Her grandfather, Louis Yablin, founded Chicago Float Works in 1915, manufacturing industrial liquid controls known as “floats” from his home on the southwest side of Chicago. He created a family legacy that he passed down to his son, Westlund-Deenihan’s father, who planned for Sandra to continue the business.

She found out the hard way, however, that things don’t always go as planned. Her father died in 1994, and while he wanted her to inherit the business, the lack of a succession plan presented a variety of problems.

“We talked about how I was going to continue the business,” Westlund-Deenihan says, “and we thought there was a clear-cut plan for that in my father’s estate plan. But there wasn’t.”

Without a written plan for succession, Chicago Float Works was destined for the auction block. To keep it in the family, Westlund-Deenihan had to cash in everything she had in order to purchase his assets. “It can be emotionally and financially devastating if you don’t have a succession plan in place,” she says. “I’m living proof of it.”

Westlund-Deenihan regained control of the business in 1995 and re-launched it as Schaumburg, Ill.-based Quality Float Works Inc. Her first order of business was to draft a succession plan for transitioning the business to her son, Jason Speer, who is vice president and general manager of the company.

“I don’t want my son to go through what I had to go through,” she says. “I implore every family-owned business to develop a succession plan.”

The Business of Succession

Quality Float Works is just one of more than 24 million family-owned businesses in the United States, according to Boston-based The Family Firm Institute. Of those, it suggests approximately 30 percent survive into the second generation, just 12 percent into the third generation and only 3 percent into the fourth.

Though the odds are against them, family-owned businesses can persist long after their current owner is gone. To survive into succeeding generations, though, each of them needs a clear succession plan, according to Barry Cain, managing director of Chicago’s Blackman Kallick Family Business Center and co-founder of the Family Business Council at the University of Illinois at Chicago.

“If you don’t plan your succession well, they’re likely to fail, perhaps sooner than later,” he says. “The great tragedy in closely held businesses is that oftentimes [succession] is not thoughtfully planned and then communicated throughout the organization — and the family.”

Give Yourself, Your Family Choices

Successful succession planning begins with a frank family survey; you must find out who *wants* to perpetuate the business and who *can* perpetuate the business.

“Who are potential successors?” asks Loyd Rawls, founder and CEO of The Rawls Group, a national firm dedicated exclusively to succession planning, headquartered in Orlando, Fla. “It’s who’s the most available, most capable, most competent and most committed. Not often are there multiple horses in the race."

Be willing to tap children, extended family and even in-laws. The key is to identify early on who is committed to the business and, more importantly, who is actually capable of running it.

Remember, Cain advises, a succession plan doesn't have to be an all-or-nothing proposition — only looking to the CEO or president's role. There's room for everyone, not just a new CEO. Gauge family members' interests — marketing, finance, management — and build a plan that gives them an opportunity to contribute where they're able and willing. For some, that may mean nothing more than owning a piece of the business, as ownership and control often fall on separate shoulders.

"A good plan isn't saying, 'Son, or daughter, in five years you're taking over,'" Cain says. Instead, a good plan is one in which the ownership generation and its successors have options. "A good plan is also one that considers future opportunities for employees who form the backbone of the business."

Put It in Writing
There is no right or wrong in succession planning; there's just planning. "The most important thing about a plan is it's written down," Rawls says. "It's communicated. The detail is not important."

In fact, the detail will change, so business owners should revisit and revise their succession plans often, communicating with their family at every step along the way to make choices regarding financial transactions, business structures, succession strategy, management continuity, successor identification and training, family dynamics and family governance.

"It all comes back to open communication," Cain says. A plan in your head is useless if it's not written down, and a written plan is equally useless if it's not shared. To facilitate sharing, then, Cain suggests having regular family meetings in which you discuss the transition of management and ownership of the business, as well as any sticky issues that may be complicating it.

Focus on Execution
Someday, your plan will cease to be a plan; one day, it will be a maneuver. "Where the really important work is done," Cain says, "is on the execution side," moving from theory to actual implementation.

To help your business weather transitions when the time comes, consider creating an advisory board of non-family members to help you make important decisions and deliver difficult messages. Your board can function as a bridge between old ownership and new.

In fact, so can key, non-family managers, who should also be involved in the succession planning process. "When you transition from one generation to another," Cain says, "you've got to keep your employees. They're the backbone of your business."

Westlund-Deenihan couldn't agree more. When she took over her family business, it was cultivating customer and employee relationships that helped things along most. "Forty percent of family businesses will transition in the next five years," she says. "You owe it to your family, you owe it to your customers, you owe it to your employees to be ready."