THE USE OF ASSESSMENTS FOR SUCCESSION PLANNING IN FAMILY OWNED BUSINESSES

STRATEGIC DESIGNS FOR LEARNING

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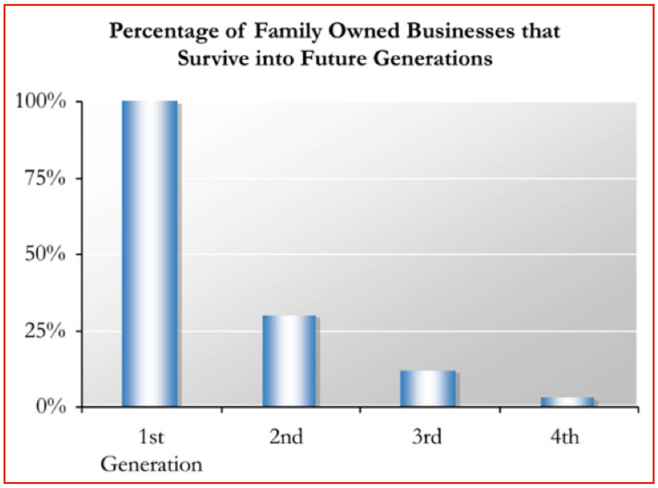
As family-owned businesses represent the lion's share of companies in North America, their success from generation to generation is important to both them and the economy. Family issues can diminish business success, and can often derail the critical matter of succession planning. Family-owned businesses have varied ways of deciding who will succeed an owner. Using cognitive and personality assessments, however, can help identify the person with the most potential for success, as well as create a development roadmap to improve specific areas. Combining assessments that measure capability—"can they perform"—with suitability—"will they perform"—provide clear insight into how motivating the leadership role is for any given candidate, and how they can maximize their potential.

IMPORTANCE OF SUCCESSION PLANNING IN FAMILY OWNED BUSINESS

Family businesses represent over 90 percent of all business enterprises in North America—nearly 35 percent of Fortune 500 companies are family firms, and family businesses account for 78 percent of all new job creation. Sixty percent of the nation's employment, and 50 percent of the GDP result from family-owned enterprises.

Succession is one of the biggest issues for family businesses and frequently where things can fall apart. More than 30 percent of all family-owned businesses survive into the second generation. After that, the numbers start to fall. Only 12 percent will still be viable into the third generation, and a mere 3 percent of all family businesses make it into the fourth generation and beyond.



Succession planning for any business is critical. The selection of a successor is more often than not a driver of subsequent profitability and in a family-owned firm is unquestionably an important piece of a business and family culture. Family business owners not only share their financial wealth but also their values surrounding their wealth with subsequent generations. Success is a high- stakes proposition.

However, succession planning for a family business owner can feel like a Gordian Knot. Navigation of this decision can be fraught with danger for families who are high achievers and productive performers, but whose family ties may be strained to the breaking point. Choosing one successor among several can bring to the surface tensions and fractures that have not been detectable for years. On the other hand, succession can be the crowning achievement for an entrepreneurial business owner—a time when she or he can share his or her success with a son or daughter or children.

The pressure for potential successors can be difficult as well. The adage, "shirtsleeves to shirtsleeves in four generations" characterizes the enormous pressure for potential successors. The first generation works hard to create the business, the second generation grows the business, the third generation maintains but feels entitled and so doesn't work quite as hard, and the fourth generation inherits a mess and sells the business.

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Another critical consideration: How can we replicate as well as leverage the strengths and, in many cases, the "genius" of an owner who appears to be "irreplaceable?"

CHOOSING A SUCCESSOR: IDENTIFYING CANDIDATES

Many successful family business owners today dream of leaving their business to their son or daughter. Having a child follow in their footsteps is gratifying to a parent. Yet when it comes to choosing a successor, an owner must be careful not to let emotions cloud her/his judgment. Statistics show that a second-generation business has only a 53 percent chance of surviving ten years, and a third-generation business less than 32 percent, according to the Institute for Family-Owned Business. That means that nearly half of all companies passed down from parent to child end up failing within a decade.

No matter how much parents love their offspring, there may be good reason not to leave them the business. For example:

When a child lacks depth/breadth of business experience. Often there's no substitute for high-level experience. A daughter may be bright and motivated, but working for her parents during summer vacations doesn't qualify her to run the whole company. If a mother or father is ready to step down but their offspring is still relatively young and inexperienced, the timing may simply not be right. The parent should either remain at the helm for a few more years or make arrangements for an interim successor.

When a child doesn't have a passion for the business. Parents can't force children to love their business just because they do. Children may prefer to explore their own unique talents. Forcing a child to embrace a business or industry he or she just doesn't have a passion for is courting trouble. Children will always feel forced into it, and one day, at the worst possible moment, they'll wake up, realize they're not happy and quit. That leaves the parent and others holding the bag and scrambling for another successor.

When your relationship isn't what it could—or should—be. Parents may hate to admit a difficult relationship with their children. Perhaps they couldn't spend much time with a son or daughter when they were young, because they were busy building the business. Children may still harbor resentments for too many missed playschool activities—toward parents and the business alike. The business may represent the many neglected hours of their childhood.

If any of these are true, the business could be headed for disaster.

Love is blind, so it's important not to let emotions or guilt influence this very important decision. A family business owner must find a successor they can rely upon. When contemplating handing over the family's primary source of income, owners need a successor they can trust and who they can predict will be successful.

At present, family-owned businesses have varied ways of deciding who will succeed an owner. The most common is probably by "entitlement" against subjective criteria, i.e. the eldest, the youngest, the smartest, a particular gender, or tenure inside the business. It would be easy to judge these decisions as "bad" or ill-advised, but a family business is normally under enormous pressure from various constituencies inside and outside the family, each with strong feelings regarding the decision. It is also important to note that many times such entitlement choices make sense and work out quite well. However, when there are other kinds of significant stresses on the business and on the family, these kinds of decisions rarely hold up.

CHOOSING A SUCCESSOR: THE ROLE OF ASSESSMENTS

Most business owners might identify the following areas as “must-have” skills for the success of their business:

- Decision-making process
- Leadership abilities
- Risk orientation
- Interpersonal skills
- Temperament under stress

Is there a way to objectively assess with predictive accuracy which successor candidate will demonstrate proficiency in these skill areas? More and more family-owned businesses are turning to descriptive and predictive assessment tools to find these answers. These tools are not new.

Simply put, assessments have been helping companies make better hires for several decades. Hiring the right people for the right positions from the start reduces turnover and associated costs, increases productivity, and produces a skilled pool of employees to ensure strong leadership development and succession planning.

There are two kinds of assessments worth examining for succession in family owned businesses. The first class of assessment tools is referred to as personality assessment or personality measures. It turns out that personality determines a number of important characteristics and behaviors, including how people interact with others, what motivates them, and what they value. Personality instruments also help determine whether there will be a “cultural fit” between the candidate and the business—and if the fit is not perfect these tools can identify areas where a gap can be closed.

The second class of assessments tools is referred to as cognitive ability assessments. Candidates with higher levels of cognitive ability are more likely to perform at a higher level on the job. These assessments can identify measures that will show who will perform effectively, learn new tasks and apply knowledge faster, solve complex and unusual issues, and respond well to training.

Assessments can also be effective tools for promoting internal incumbents, interviewing, targeted leadership development and coaching, and succession planning. When family-owned companies recognize the broad value of assessments, they'll want to use them to improve bench strength across their organizations as well.

The *combination* of valid cognitive ability and personality assessments provides a means to identify the person who has the most potential for success, as well as a development map to improve specific areas. These assessments can measure capacity in given job skill categories as well as cognitive, analytic and innovative abilities that are often predictors of success. They can also help succession candidates understand where their passion lies or where their skill sets are strongest. The combination of capability and suitability assessments provides insight into the motivating potential of a job for any given candidate, allowing them to maximize their potential so that:

- Owners know succession candidates have the capabilities to do the job. In other words, they possess the gifts, talents and cognitive abilities to effectively perform the job.
- It's apparent potential successors possess the passion for the work. Passion to perform the job duties and work within a given job context is measured by examining the individual's personality, interests and preferences.

PRACTICAL USE OF ASSESSMENTS: CASE STUDIES

Let's consider two scenarios of former clients of ours where these kinds of assessment tools made a huge difference as these family-owned businesses considered succession alternatives.

Scenario One:

Business: High End Retail Jeweler
Age of Business: First Generation
Family: Mother, Father, four children (three sons, one daughter), two of whom work in the business

Business Case: Parents have worked hard for 30 years and built up a $10 million business with a stable customer base. Father is Chairman and Mother is President. They appreciate the work of both of their sons and notice that the eldest is a gifted salesperson and the youngest appears to be both more interested in and better at the back office part of the business. The other two children are not involved in the business. The parents are interested in pursuing other interests, including a potential run for the state senate, so they are "ready" to consider succession. They are both in good health and in their late 50's. They have been wanting to talk with both of their sons about succession and even thought they might try putting together a "succession plan," but they are a little intimidated by the prospect and frankly are concerned that when they finally do create a plan, the eldest son will feel "passed over" and that it might cause disharmony in their family. They also realize that even after creating a formal succession plan, there will be at least a few years during which they will have to work closely with their youngest son to groom him.

We began our engagement with this family and requested that we all meet together, including the children who did not work in the business. We asked the parents to invite their children, with the focus of the meeting as "business continuity." We had an informal meeting with the family just to introduce them to what we do and to begin to probe the general "health" of the communication, and to calibrate the openness of all parties to begin talking about generational transition for business continuity. We congratulated them on taking an important first step at a time when business was good and there was no immediate threat to the business. We introduced the idea of each person taking a personality assessment so that they all could "reintroduce" themselves in terms of their temperament, their learning style, their leadership style and their working styles. They thought it might be fun and interesting to see the differences. We then met with each member of the family privately to go over the results of the assessment so that each of them could ask questions and begin to express how some of what they learned might explain communication patterns in the family and in the business. We asked permission to share family members' assessment results with one another. At a subsequent family meeting, we facilitated some fun activities that accentuated their strengths and differences. We divided them into groups of two and ended this session with the question, "Knowing what you now know about each other, how would you go about creating a succession plan that would lead to business continuity?" This showed that there are many ways to solve a problem. We introduced the notion of a "process" over the next several months, where we assisted in crafting a succession plan everyone felt comfortable with and which they all would feel a part of. There were a few additional assessments used with the sons who worked in the business and with the mother as the owner over the next few months. Eight months later, after working closely with all parties, the two sons and the mother agreed on a draft of a succession plan that they would present to the father and the other siblings, identifying a specific path for the youngest brother to take toward the role of president.

Scenario Two:

Business: Global Manufacturing Company
Age of Business: Fourth Generation
Family: Father, six children (four sons, two daughters) all of whom work in the business (four on the manufacturing side and two in functional areas, HR and Finance)

Business Case: Father is chairman and CEO and is in his early sixties, with a number of chronic illnesses, variably managed. The business is in very good health, with revenues exceeding $20 billion. Family meetings are fraught with sibling miscommunication and rivalry. The father is reluctant to retire, fearing that the business will fail. He views his children as reasonably competent, but none of them seem to have "all of what it takes." When he's honest, he even agrees that none of them are "him." He knows he must retire soon. He wants the family business to continue as a family business. He would like to identify which of his children has the best chance at succeeding. He is open to a "shared leadership" concept but doesn't have any real confidence that it can work since he has been the strong epicenter of authority for 42 years.

We began the engagement with this family by being invited to a regularly scheduled family meeting. The father was fairly quiet, but the siblings were quite vocal with questions that were important to them. Essentially, they each wanted to know if our process would help "move their Dad along." We explained that we were strong proponents of "data driven" succession planning. The data in this case is comprised of each of the personalities, skills, behaviors, attributes and experiences of the siblings and the father, as well as each of their ideas about where the business is going, how it is going to get there and what part each of them wanted to play. We explained that we use a combination of assessment tools and direct observation as well as deep interviews to obtain the data. As the meeting progressed, it became quite evident to us that information about the succession process was a critical need for each of the family members. We published a calendar for the process and began work with family members and the entire family against a specific process schedule. After assessment tools (including predictive, descriptive and 360 assessments) were administered, scored and debriefed, we worked intensively with the sibling group intensively to craft a defensible straw man succession strategy that they could present for their father's consideration. At the end of 18 months, the siblings came up with a proposal for their father regarding the roles each one thinks/feels they are a "best fit" for. The father was quite impressed with the insight and detail of the succession strategy and is currently reviewing it with his executive committee and financial advisors.

CONCLUSION

Family-owned businesses face many challenges and considerations as owners consider succession plans. As these scenarios illustrate, proven descriptive and prescriptive assessment tools provide a rational basis for creating a succession candidate pool. If parents decide that their heir or heirs are the candidates to be considered, these tools can provide a useful benchmark for their development. Either way, the rational baseline will have been established—leaving the way open to consider the decision using all of the measures that have helped make family businesses great—their passion, their values, and their sense of family legacy.

STRATEGIC DESIGNS FOR LEARNING LEADERSHIP

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Renée founded Strategic Designs for Learning (SDL) in 1999. As an organizational development practitioner, Renée has twenty-five years of strategic leadership experience and consulting with small, mid-range and large companies in the manufacturing, energy, retail, finance, and information technology sectors. She is accomplished in the following areas:

- Executive coaching, counseling and assessment, organizational behavior and diagnosis, change management and succession planning for family-owned businesses.
- Facilitation in the areas of team building, strategic planning and large systems change.

Renée holds advanced degrees in Behavioral Psychology, Policy Analysis and Pastoral Psychotherapy and is certified in the use of numerous assessments and instruments including the Caliper Profile™, HR Chally Instrument™, Myers-Briggs Type Indicator™, Designed Learning's Empowered Manager™ series, the Center for Creative Leadership's Benchmarks™ and Corporate Development Group's Culturetek™. She is a member of the American Psychological Association, Association of Managers of Organizational Design, American Counseling Association and Organizational Development Network.

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Maryanne Wanca-Thibault is an organizational and leadership development consulting professional. Her experience in human capital management includes executive assessment, selection, leadership development, executive coaching, and succession planning. Maryanne has a doctorate in organizational communication from the University of Colorado at Boulder and is a recognized communication scholar and practitioner with an extensive background in learning solutions. Her current efforts include developing an affordable suite of talent management tools that provide small and mid-sized family-owned businesses the same resources that are available to larger organizations.

ABOUT STRATEGIC DESIGNS FOR LEARNING (SDL)

SDL is an organizational development firm focused on building talent management by assessing, aligning and developing talent capacity within organizations—with an emphasis on family-owned businesses.

Our process is simple. We get clarity on your business challenges and develop a custom solution to begin building additional capacity in the organization itself. We do this by using a combination of proprietary assessment tools to evaluate your organization and identify gaps in skills and leadership competencies that can contribute to a misalignment in organizational culture and performance. In every case, our goal is to help you maximize the talent that is inherent in your organization.

Our specific capabilities include:

- Organization Development & Strategy Consulting
- Strategic Leadership Assessment & Development
- Organizational Alignment for Merger Integration
- Succession Planning & Talent Management

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