

# Succession, family health, and business prosperity

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# What Are Your Chances?

- 30% survive per generation
- Fewer than 3% survive into the fourth generation

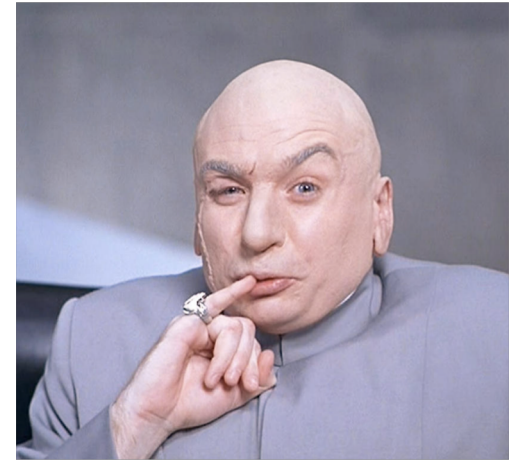
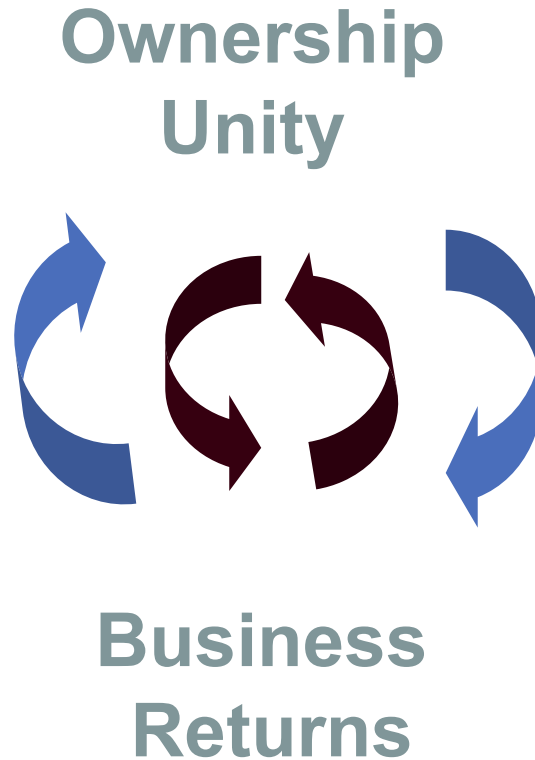
1-2	2-3	3-4	4-5	>5
.3	x .3	x .3	x .3	x .3
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30%	9%	3%	1%	<1%

# When to Worry

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# Maintaining Unity: Virtuous or Vicious Cycle



# The Science of Succession: Three Keys

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Research on more than 18,000 companies says:

- Board of Directors
- Strategic Planning
- Family Meetings

Diet  
Exercise  
Don't Smoke

# Ownership Pyramid



# Key 1: Boards, Some Data

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- 85% of CEO's who put a board in place said it was their single best management decision
- Lack of CEO chairman duality increases performance
- Two outsiders to each family member improves performance
- Outsiders increase value (but occupation of board member has no effect)
- Board diversity reduces likelihood of strategic change
- Outside directors decrease risk of internal fraud

# Board Purpose

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Many companies do not take into account the various reasons why boards exist:

- Companies often have boards for *strategic reasons; this is at most secondary*
- Has the ability to hold the company accountable and the discipline to not interfere in company operations.



# How Many And How Often

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- Larger boards promote greater accountability (more eyes more accountability possible)
- If the board is healthy (more people does not create paralysis)
- If board members can handle open dissent and brutal candor
- If directors can render good judgment and desire their judgment to be evaluated
- 7 to 12 members recommended
- Research says 3 to 6 meetings per year

# Director Pay

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At rate equivalent to the CEO

$$\frac{\text{CEO's Annual Pay}}{250 \text{ working days}}$$

# Family Meetings

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- Builds trust
- Avoids resentment of interruption
- Improves communication
- Insurance for crisis communication
- Allows for coordination
- Enables clarity of expectations and roles
- Encourages thoughtful decision-making
- 4 to 6 times per year

# Meeting Rule

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- Number of people (P) times
- Number of items (I) times
- Number of minutes (M) per person per item
- Equals
- Total minimum meeting time (MMT)

$$\text{MMT} = P * I * M$$

# Key 3: Strategic Planning Research

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- Planning is more important than plan
- Planning is the continuous discussion about where the business is going and why allowing people to make the right decisions faster even when uncoupled from the top
- Unambiguous goals are important
- Clear measure of success is essential
- Culture of commitment to business increases strategic flexibility
- ability to pursue new opportunities and respond to threats
- Stewardship-oriented organizational culture is best

# A Planning Mission

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- Constantly anticipate the future so that
- You can develop flexible goals, objectives, and plans of action in order to
- Fulfill your family's long term goals
- Company strategic plan is subordinate to family strategic plan (company is a means in the family plan)
- Unbeatable success happens when you don't just anticipate the future, you create it ("enact a market")

# GOAL SETTING

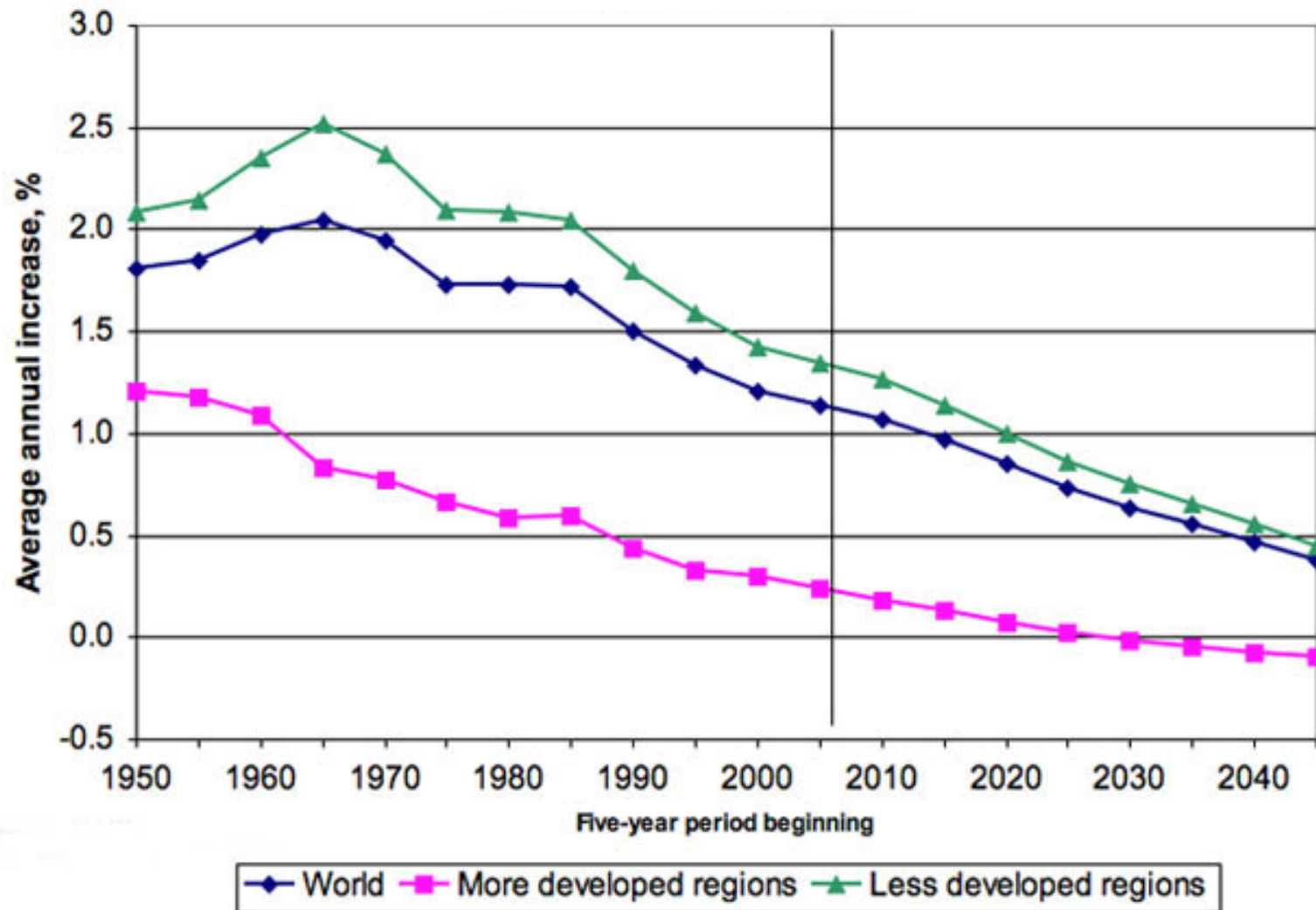
# Basic Business Question

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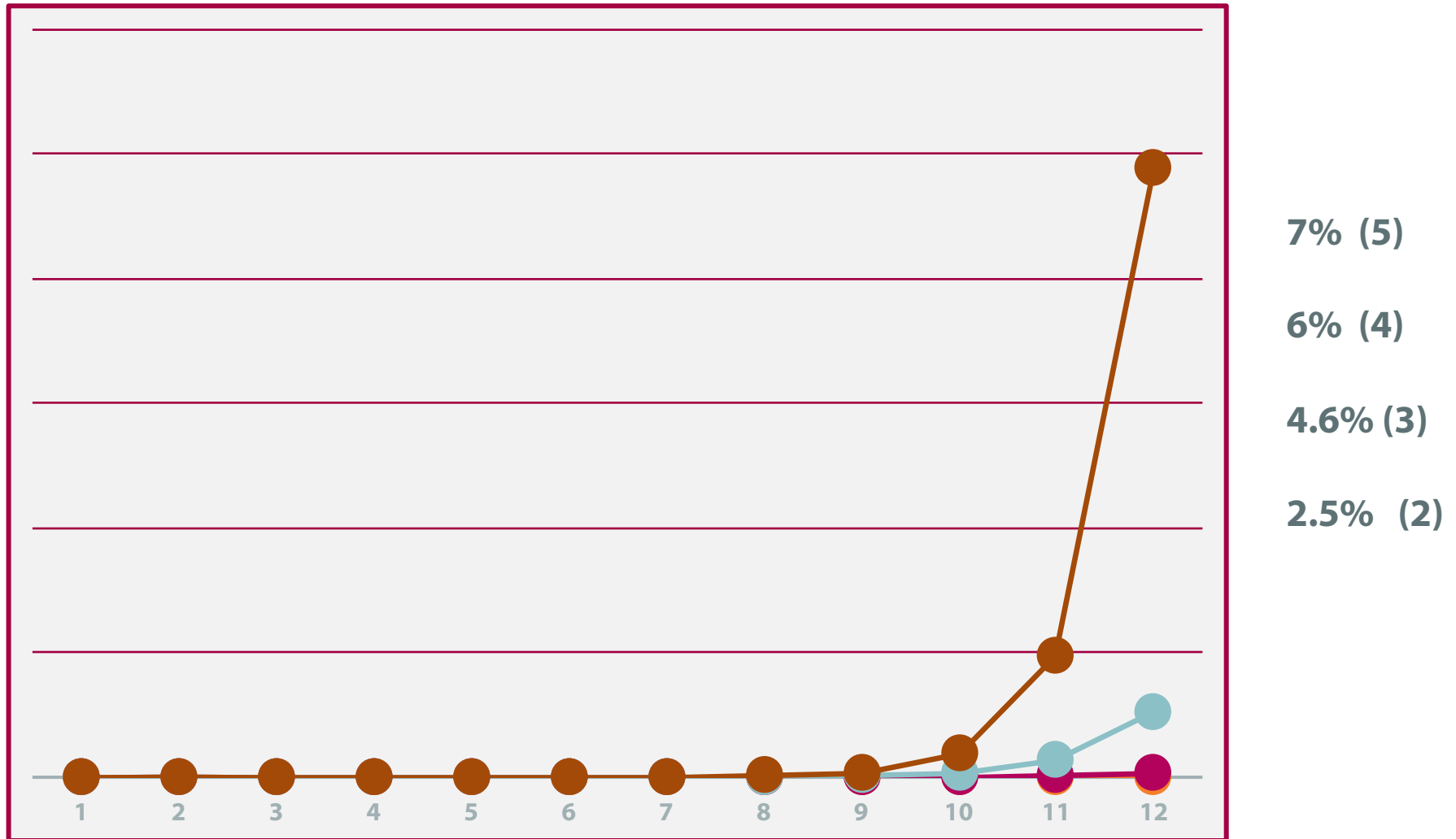
How fast does a market grow when the needs for products and services has reached saturation?



# Population Growth Rate



# Possible Family Growth Rates

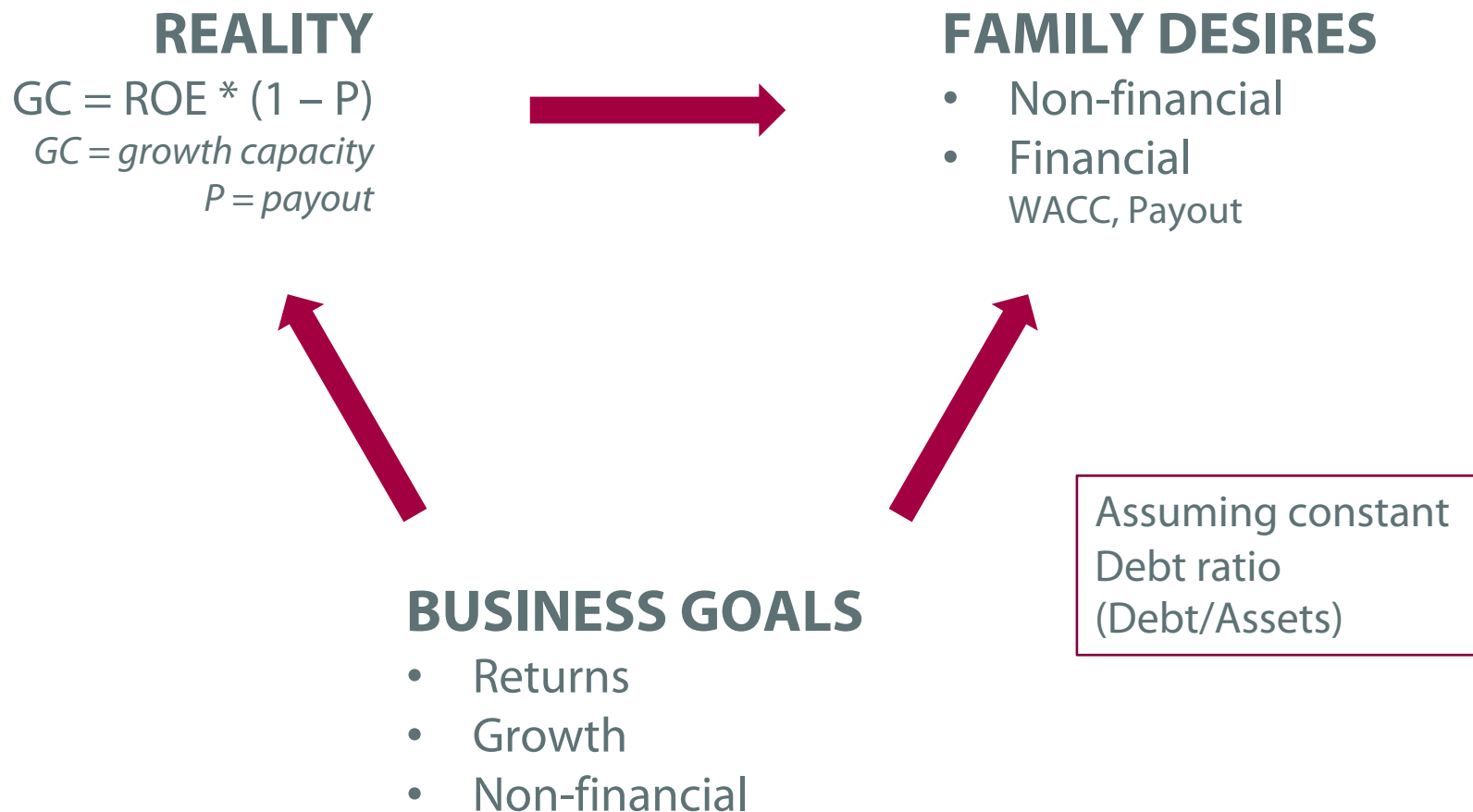


# Meeting Family Needs

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- If a family grows at 2.5% how fast must the company's profits grow to pay out equally over time all family members (constant lifestyle)?
  - 5.6% (before inflation and after taxes!!!)
- If a family grows at 4% how fast now must the company's profits grow to pay out equally over time all family members (constant lifestyle)?
  - 7.1% (before inflation and after taxes!!!)

# Goal Setting: Every Board & Family Should Know



# Family Business Goal Structure (End of Year Balances)

Operating  
profits/ Total  
assets



<b>Growth</b>	*	<b>6.6%</b>
<b>Payout</b>	<b>50.0%</b>	
<b>Debt Ratio</b>	<b>60.0%</b>	
<b>Preferred Ratio</b>	<b>0.0%</b>	
<b>Interest Rate</b>	<b>10.0%</b>	
<b>Preferred Rate</b>	<b>0.0%</b>	
<b>Tax Rate</b>	<b>25.0%</b>	
<b>Basic Earning Power (EBIT/Assets)</b>	<b>13.0%</b>	
<b>Return on Equity</b>	<b>13.1%</b>	
<b>Interest Coverage</b>	<b>2.17</b>	
<b>Cost of Capital</b>	<b>9.8%</b>	
<b>Solve for *</b>		
Items below double line are derived.		

# RETURNING TO SUCCESSION

# Key 3: Strategic Planning Research

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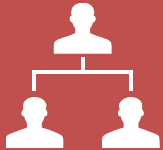
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# Succession planning: four key practices for success

Family businesses with successful successions engage in four long-term practices to lay the groundwork:

1

Clearly define  
who is  
responsible for  
succession



2

Focus on next-  
generation  
preparation



3

Nurture an  
entrepreneurial  
culture



4

Work to attract  
top talent

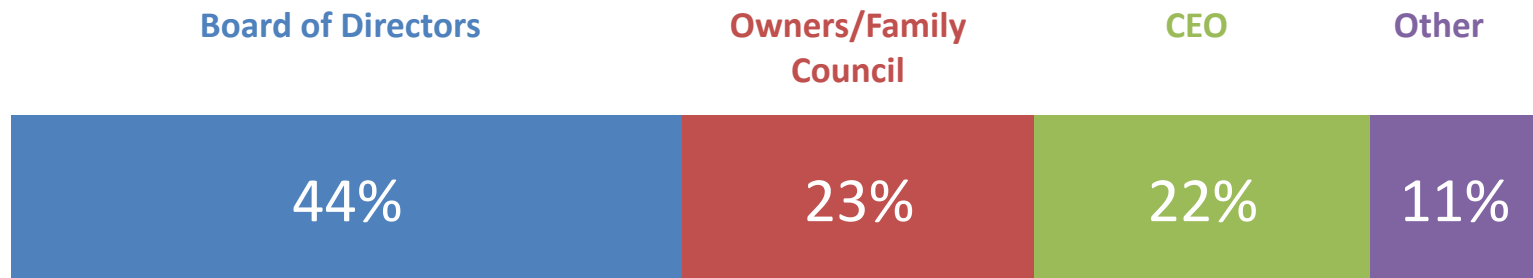




# Practice 1: Clearly define who is responsible for succession

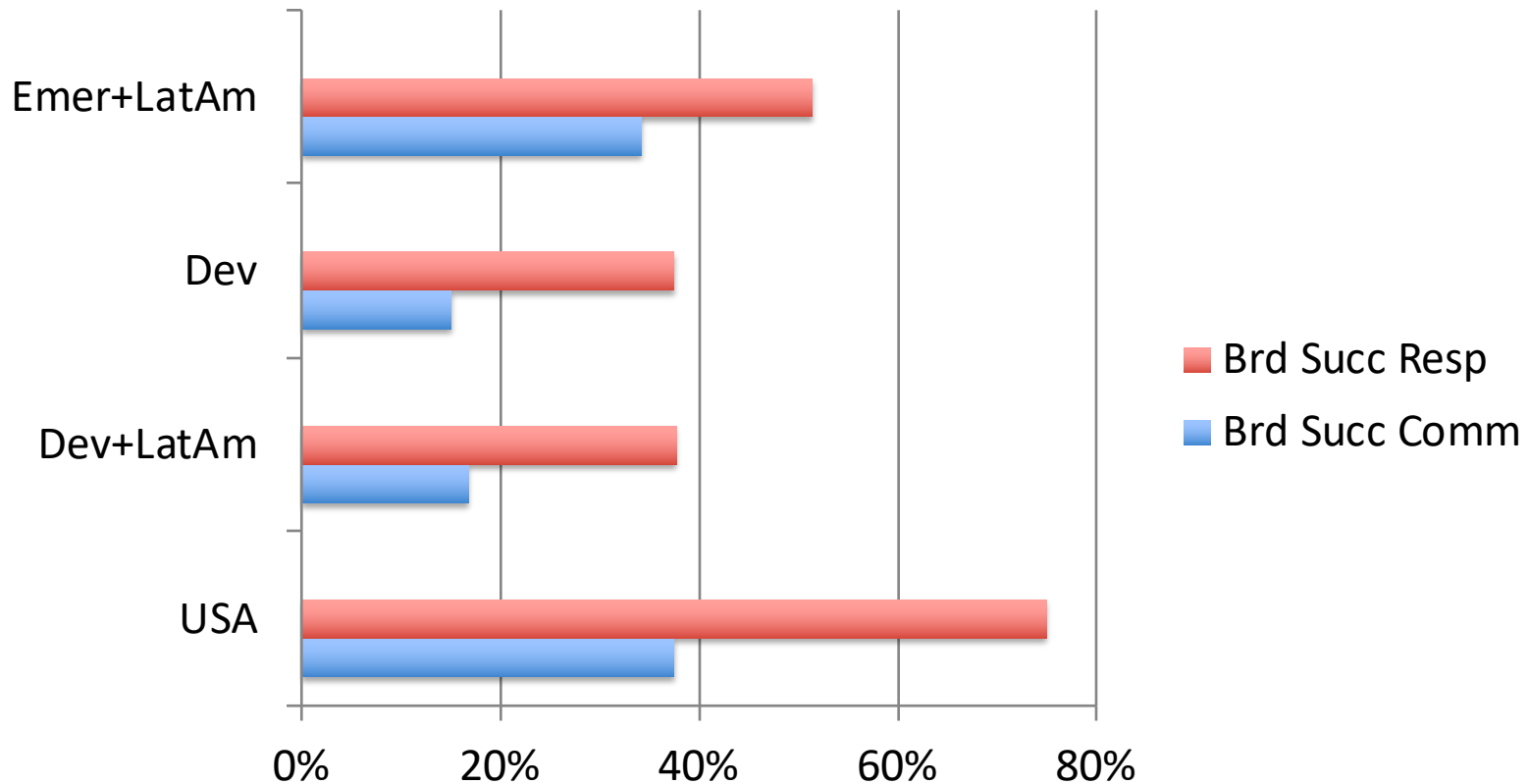
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- 88% have identified who is responsible for succession
- Clear processes for handling leadership transitions



[Figure 1: Who has primary responsibility for succession planning?]

# Board Responsible and Committee



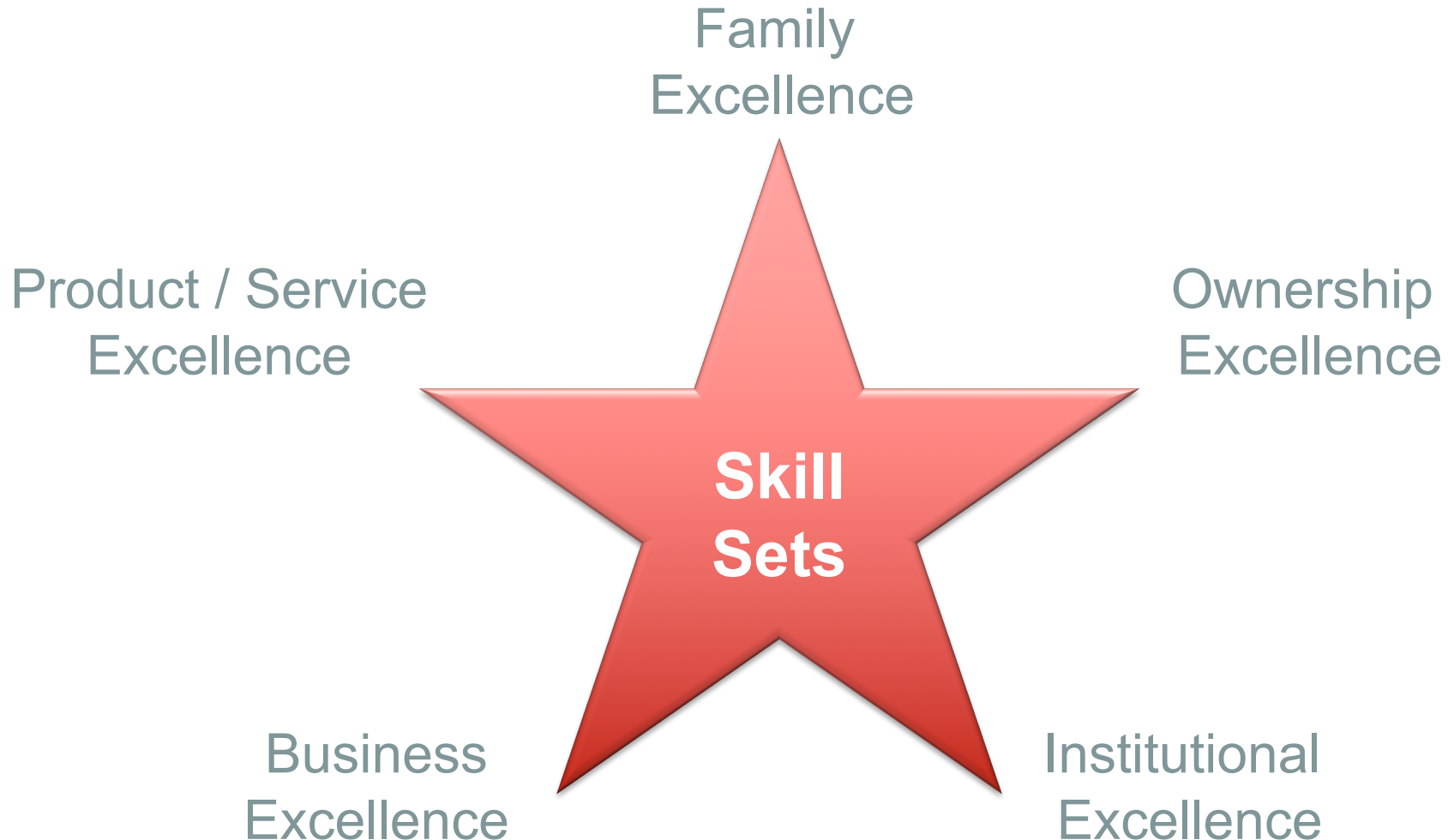
# Key Takeaways

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- Have a business so strong it can survive three bad successors
  - Culture and values
  - Ownership unity
  - Financial
  - Strategy
- Know who is immediately responsible in case of a tragedy and how long they are expected to serve
- Have someone or group (preferably a board) designated to:  
1) select a successor, 2) manage the transition, 3) decide when a new leaders is needed, and repeat.
- Reassuring, open, honest communication with stakeholders

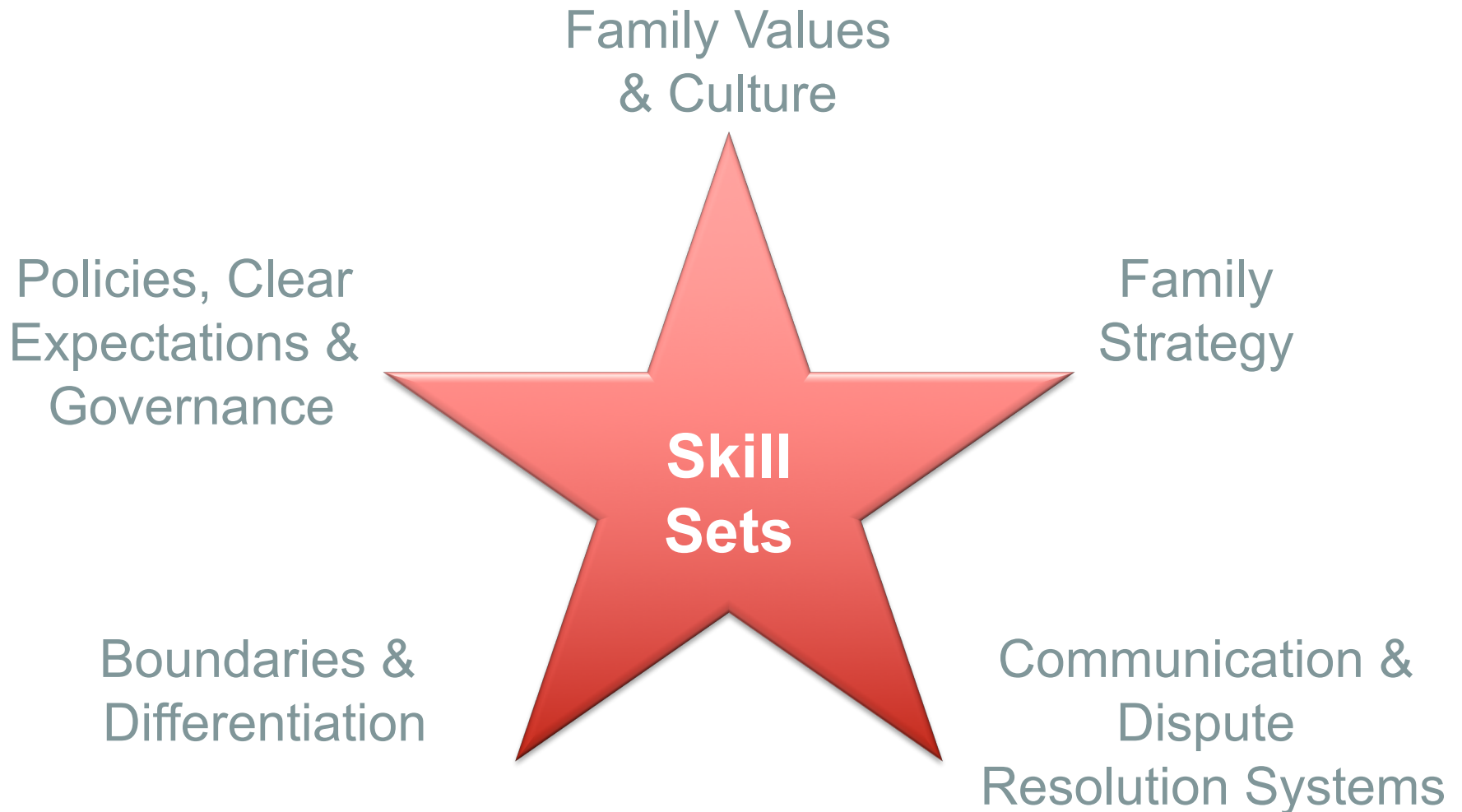
# Guiding Framework

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# Family Excellence

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# A Few Lessons for All: Raising Children

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- We learn best from our failures as they create strong memories
- Failures and mistakes have different recovery times
- At every age of your child decide how long you would let them suffer from a failure so that you know when to step in to prevent the mistake.
  - For example, a one year-old might be allowed a five minute mistake, a five year-old may be allowed a 90 minute mistake
- Children are considered adults when you allow them to make a life-long mistake

# Self Esteem: Necessary Condition of Effective Communication

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- Consistency in childhood
- Actions and consequences connected
- Sense of control over self
- Mastery of tasks
- Accurate feedback
- Familial support
- Being listened to

# Developing Responsible Owners

Age-specific tasks	Appropriate age (yrs)
Actions-consequences link	3-5
Money	5-8
Trade	6-9
Importance of future (no instant gratification)	6-11
Investing	9-12
Separation of ownership and management	10-15
Emotional differentiation	18-25
Balance sheet, P&L, Cash flows	18-30
Financial analysis (CAPM, DuPont, EVA)	24-35



# Raising Children to Work Together

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- Age appropriate group decisions
- Selflessness rewarded
- Selfishness punished