

Hi. This is Wayne Rivers at The Family Business Institute. Thanks for spending your time with us. As always, let us have the benefit of your comments below.

So, I want to talk about succession planning as we do probably every other blog. It's just the big bugaboo for family businesses over time. There just never seems to be an easy way to do it. So today, I want to give you the top nine reasons that we think that family businesses fail to do succession planning. Everybody puts it on their to do list. Everybody says, "This is gonna be the year, by gosh. 2018's gonna be the year. We're gonna get it done and we're gonna put together a coherent, strategic succession plan and we're gonna make it work," and then, guess what. You get to December 31st and it didn't happen. That's just the nature of family business planning and I'm gonna give you the nine reasons why that's so.

First, it's never urgent, right? There's a distinction between important things and urgent things. If you've seen Dwight Eisenhower had the matrix that he used for deciding how to focus his time – are things truly important and urgent or did they just appear to be urgent and weren't truly important? So, succession planning is ultimately, amazingly important. But it's rarely urgent because unless there's a serious illness, then you can always do it next month or even next year. You can always get around to it and the day to day stuff piles up and it takes time away from doing this ultimately very important task in favor of your more urgent tasks. It's easy to put off.

The second reason is, let me be blunt, the professional community – the bankers, lawyers, CPAs, financial planners, etc. They focus on the drop-dead aspect because that's their training. That's what they do. That's what they're good at. That's what their contracts are about. They focus on the drop-dead aspect of succession planning and they give you a false sense of security. You need a drop-dead plan. Don't get me wrong. Absolutely you need a drop-dead plan because you never know if lightning's gonna strike and you don't want to leave your business or your family in a lurch. But the false sense of security that it creates is a problem because you go to the lawyer and the CPA and you do the estate planning. You take care of the taxes and my stuff's gonna go here and I want my body donated to medical science, all that other stuff and you go, "Whew, golly. Glad that's over. I got all these documents now and I just spent \$8,000 and whew, man, more power to me. I've done a good job of succession planning." Well, no you haven't. You've only addressed what happens if you drop dead and let's hope you don't. What happens if you live? That part of the equation goes unanswered 90% of the time.

The third reason is that you get employee or family member push back and this happens all the time. Let's say a senior generation family business leader has three kids and they're all grown and they're all married, and Mom and Dad and the three kids and the senior managers in the business, they all want to get together and do succession planning and they want to talk about a strategy for moving the business forward over the next 10 years and somebody on the group says, maybe an in-law even says, "No. I don't want to do that. It stirs up too many unwelcome memories and I'm just not ..." It is amazing how we let other people in our families have veto power over decisions big and small.

So, you get pushed back from an employee. Well, we don't have time for that right now. Succession planning sounds great. I know we need to do it. But, man, we've got 10 projects we're working on that are much bigger than that and we just need to focus our time on that. Let's put it off six months. Well, okay, he makes a good point. Let's do it. You get pushed back and, frankly, the senior generations leaders or the people leading the initiative lose heart and they walk away from it.

The fourth reason is psychological. It's always, always, always, always, always, always easier to not change if you think about it, right? So yeah, we need to do succession planning and we need to hire some people and fire some people and we need to invest more money in this area and we need to have better IT and we need to do all this strategy and succession planning. You know what? It's always easier and safer, psychologically to not do it because doing succession planning and strategic planning is gonna require that you undertake a process of change and change is very threatening to us psychologically.

So, saying no, pushing it back, walking away from it, you go, "Whew, wow. Dodged that bullet." We can put that off for another six months and we don't have to worry about it. Always easier, always safer and there, again, not to pick on the professional community, but typically, CFOs, controllers, CPAs, their first answer is always no because they're risk managers. They're there to manage risk on your behalf. If you let them get between you and your necessary entrepreneurial pursuits with a no, then I'm sorry. You're gonna find yourself losing ground to your competition over time. But as risk managers, it's wise for them to say no because they see the needs of the business and they tend to prioritize urgent things over long term important things.

The fifth reason is how to, okay? Those two simple words, how to. Succession planning's complicated. There's lots of moving parts. There's lots of people that need to be involved in the process. Somebody might not be happy with the process, which is another family or psychological risk. The how-to part is really nebulous for most family businesses. They know their business. They know their processes. They know their people. They know their customers. They know their vendors. They make decisions every day with less than perfect information. But this thing only comes along once a generation. The needs to the business, that's daily. I mean, my daily muscles are pretty well built up from making those decisions. My succession planning, that only comes up once every 20 or 25 years. So, I don't have well developed muscles for those kinds of decisions and so you need the how to and in the absence of the how to, there's nowhere to go.

I've heard this a number of times over the years and it always puzzles me. People say, "I know we need to do succession planning. We probably should get The Family Business Institute to help with it. But I don't know really what my goals are and until I know my goals, then I really can't get professional help." That is poppycock. That is so wrong. Part of hiring a professional, whether it's an attorney or a CPA or us as a consultant, is to help you focus your mind on the realistic alternatives. What's the realistic menu of alternative that you can pick from here? Okay, you don't know what your goals are. Well, can't a good professional, shouldn't a good professional help you define what those realistic outcomes might be? That thing has always boggled my mind.

The sixth reason people don't do succession planning is one of my favorites to talk about. There is a distinct lack of courage among next generation successors, whether they're family or non-family. It's almost like they revere the bosses or the senior generation in the company so much that they don't want to rock the boat. Really? Even sometimes the senior generation says, "I would like to see more fire." This happens rather frequently, really. "I'd like to see more fire from my successors. They just don't seem to have the same energy and commitment that I did when I was coming along. The lack of courage, how much courage does it take to go to the boss and say, "We really need to think about what we're gonna look like 10 years from now because you're not always gonna be here and you want to take more time off and travel with your spouse and all this other stuff." How much courage does that really take? But it is shocking to me.

I can only name maybe four or five examples in my 29 years where successors have gone to the senior generation and said, "Look, if we're gonna do this succession planning, I want to know my future or I'm out," and they actually had the courage to quit and let me tell you something. That little handful of people are the most successful clients The Family Business Institute has ever had. They are all family businesses, the ones I can think of. They took their dad's companies. All of them were their sons taking over from fathers and they took a little kind of an unknown pipsqueak of a company and turned it into something magnificent. Those people had courage and I wish that so many more of our 35-year old and 45-year old next gen successors, family or non-family, it doesn't matter, had the courage to really push, to say, "We need this as an organization." You're going to lose your best people if we don't have a pathway for them to see themselves in the future of this business. It really is a huge frustration. I guess you couldn't tell. It's a huge frustration for me.

All right, the seventh reason, the senior generation is worried about fairness. So, we did a poll years ago. It was a long time ago now and 80% of our customers had children in the business with them. 80% also had children who weren't in the business. I mean, there's overlap in that number, obviously. So, if you think about it, the majority of family businesses today have both employee family members and non-employee family members and the senior generation always worries about, "Well, God, the business is worth 5,000,000 bucks. But I don't have that much other stuff. So, if I give the business to my employee children, then my non-employee children aren't gonna be treated fairly at inheritance time. What do I do?" They get so wrapped around the acts about fairness. Come on, man. That's not that hard of a problem. Go out and buy some life insurance or figure out a way to give them all the business equally and just put a ... There's so many ways to overcome that. But they let that be the big 600-lb gorilla that blocks any progress. "I don't know how to be fair to my children." Hey, man. Get some advice. It ain't that complicated. You think you're the only person that's ever been in this situation before?

The eighth reason is that people view family business succession planning as an event, not a process. So here it is, Q1, 2018 and Dad says, "Okay, look, I'm tired. I'm 70 years old. I'm gonna be out. December 31st, I'm out. Get ready." Well, it's not like you don't have a busy job as a successor. It's not like everybody's not occupied. What do I even need to know to be ready to run the company? So, there's little mentoring. There's little preparation. There's little time invested and really, it's like an event. On December 31st, I'm gonna be out and you're gonna

be the new president and, Sally, congratulations. Get to it and Sally doesn't know where to even begin and Mom and Dad aren't much help because they're doers. They're not teachers. They're not mentors.

And then the final reason, it costs too much. I don't want to go to my lawyer and CPA and spend thousands and I don't want to hire a consultant. It just cost a fortune. We'll just figure it out on our own. Well, it's not cheap. I mean, lawyer fees and CPA fees and professional consulting fees, they're not cheap. But at the same time, if you have a business worth preserving, you have to look at it not as an expense. It's an investment with a predictable return. So, let's say just, "Hey, man. Let's have fun with this as a consulting firm," you spend \$100,000. You won't. But let's just say you spend \$100,000. But if you can preserve the value of a business worth 1,000,000 or 5,000,000 or 100,000,000, I mean, really, is that investment not a drop in the bucket? So those are the top nine reasons that family businesses fail to do succession planning.

If you're stuck with one or more of these challenges, by all means, pick up the phone and call and, man, we'll talk you through it, try to get you pointed in the right direction and as always, we'd love to have your comments below. This is Wayne Rivers at The Family Business Institute. Thank you.