

How Succession Planning Can Be A Tool To Preserve Family Wealth

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Founders and beneficiaries of family businesses have two consistent ambitions; the first being that the family business survives and thrives in their absence, and the second being that the family wealth is preserved and remains well invested to ensure benefit for future generations, in perpetuity. While, as John Maynard Keynes would say, "In the long run we all are dead", family business can create lasting wealth and structures to ensure its preservation and growth.

Succession planning is one of the most valuable methods to safeguard and grow the family's business and wealth. However, succession planning here cannot be as simple as ensuring there is an able offspring (son in the case of most Indian cultures) to take the reins of the business and the charge of the treasures forward. These traditional approaches are fraught with multiple risks and challenges, these include:

Ensuring there is an Heir: This invariably adds a lot of pressure on the future generation to reproduce the offspring of a select gender.

Yearning for Interest: Hoping that the next generation is interested in and passionate about the family business or business at all.

Hoping for Competency: Usually family businesses are founded and grown by one or two individuals with outstanding business acumen and competencies, whose efforts have resulted in the quantum leaps in wealth creation. There is no guarantee that the acumen and competencies transcend generations.

Going beyond the "family" business to diversify industry risks: The rate at which the arbitrage is moving away from industry to industry is creating a need to be nimble while making investment decisions. The family knowing a business for decades is no guarantee of future returns, because the industry itself may become commoditized or less attractive.

To be really prudent the family business must take a leaf out of the non-family businesses book and deploy the "best" person for the job. And well it could very well be an insider, but there should be room to consider a professional from the outside. A multi-step approach is suggested towards this problem beginning with the first step of defining the desired outcome from a family business every five years and relooking at the progress annually. The second step is to identify all the critical / strategic roles within a family business followed by an engagement with a consulting organization to perform critical tasks. These tasks will include examining the competencies and experience of the same roles within competing organizations; conducting an unbiased fit evaluation of family members who would like to participate in the business; identifying gaps and filling the gaps using external talent to arrive at the optimal organization structure and competencies and defining clear roles, responsibilities

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and reporting lines just like in a non-family professional organization.

The success of the above approach will entirely depend upon the family's willingness to embrace the following:

1. Wealth preservation and growth is far more important than absolute control. At worst, the role of the family could be relegated to that of an investor with professionals running the entire show. Of course, as an upside, this means the family members will be able to pursue other businesses or other interests which would not be possible if they were consumed in the day to day operations;
2. Organizational structure and reporting lines are sacrosanct. These cannot be side-lined for business as usual, emergency situations or otherwise. These are paramount to attract and retain professional talent;
3. Performance measures (KPIs) are established for all levels and systems are put in place to ensure tracking and correction. Frequency of KPI review is also discussed and agreed with the professionals and family members alike in any business
4. The business is far more important than the individuals. So, any individual takes up a position only if found to be competent. If the individuals really aspires to assume a position she is not ready for today, a clear development plan is identified for the same. This could include one or more of the following:
 1. Formal education at B-schools (for e.g. ISB conducts a Family Business programme)
 2. Mentoring from the right person internally or externally
 3. Working in non-leadership roles like other employees

This is the hardest pill to swallow for many where the scion cannot be termed as not ready and seen grinding it with ordinary employees. However, there are several family businesses where these steps are followed with enthusiasm and without exception to create a well-founded succession for the illustrious seniors.

A lot of what a family business can preserve will be determined by the family's ability to call "a spade a spade". To not let parental love and aspiration come in between its ability to decide a worthy successor, for the short run or long. As part of the succession plan, the family must also create internal capabilities through education and experience outside the safe sojourn of the household. Trusted external advice, must be considered to avoid a decision riddled with emotion or stifled by tradition. None of this is going to be as easy as reading this article, but then preserving the family silver is also not going to be walk in the park.

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