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# The Key to Successful Succession Planning for Family Businesses

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The succession process is one of the biggest challenges facing family firms, as most fail to remain a family business past the second generation. Among those that do succeed, a key concern is how nonfamily personnel will receive a successor. Perceptions of nepotism in succession can undermine nonfamily employee commitment to the business and their continued participation in the firm. Addressing this common issue can be difficult because the ability to choose a family successor and provide employment opportunities for family members is often a primary aim of family business owners. Thus, a key challenge for family businesses is gaining buy-in from nonfamily employees for the next generation of family leadership.

We reviewed more than thirty years of research on nonfamily employees in family businesses, and the findings suggest that contrary to conventional wisdom, the solution is *not* to discard family succession altogether. Our research actually finds that nonfamily employees often *prefer* family successors to nonfamily outsiders because of the family-like cultures that accompany family succession. Yet, family firms must reassure employees that the next generation is well-suited for the leadership challenges they will face. The studies we reviewed highlight clear communication, strong relational bonds, and proven successor fitness as keys to an effective succession process. Drawing on this review, we identified three primary ways family firms can secure nonfamily support for next-generation family successors:

### **Foster familiarity**

The best succession handoffs are often years in the making, giving employees needed time to prepare for this transition. In fact, upfront conversations about the family's succession intentions should be had

*before* firms hire nonfamily employees. Research reveals job candidates have polarized opinions about working for family businesses. Letting prospective employees know the firm's motivations and intentions can prevent discontent down the road. For current employees, potential successors should also be introduced to nonfamily employees early in the process. Familiarity breeds trust and cooperation as employees need time to become comfortable with a successor. The relational capital created between the successor and employees from these interactions can be pivotal in fostering acceptance for family succession well before the handoff occurs.

### **Raise the bar**

Nonfamily employees often sense that family members have less accountability or responsibility than they do. To counter the adverse effects of such perceptions, aspiring successors should demonstrate competence and model accountability. Credentials such as education or outside experience can assuage nonfamily employee fears that the successor is simply the product of nepotism. Such displays of aptitude for leadership can foster buy-in among concerned nonfamily employees. Likewise, family firms should demand more from aspiring successors. Longer hours and tougher assignments during the transition process can inspire confidence among nonfamily employees in the dedication of the successor. This can help reassure employees that a family successor is the right person for the job.

### **Bring them in**

For many family firms, responsibilities for training the next generation fall squarely on the family leader. This practice misses a key opportunity to gain nonfamily employee buy-in. Not only can skilled nonfamily employees be a valuable resource for preparing the next generation, but including nonfamily in this process allows firms to signal to nonfamily members that they are valued contributors to the firm's success. Such participative cultures create a more loyal and devoted workforce. Future

successors displaying humility and a willingness to learn from seasoned employees can deepen the commitment of nonfamily members, earning their trust and respect.

Successfully passing the baton to the next generation is a goal for many family business leaders. It can also be a sound business move if the right steps are taken. By clearly communicating family succession intentions, developing strong relational bonds, and proving the fitness of next generation leaders, family firms can achieve buy-in from their nonfamily employees. Not only will this make for a smooth leadership transition, but it can also increase nonfamily identification with both the family and the firm, creating a more productive and satisfied workforce that propels the firm for years to come.

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