

# **SUCCESSION SCORECARD<sup>®</sup>**

Jozef Lievens

# THE SUCCESSION SCORECARD<sup>®</sup> : SUCCESS FACTORS FOR THE CONTINUITY OF THE FAMILY BUSINESS

## I. Introduction

### I.1. Succession : *the challenge for every family business*

According to research, preserving the familial character is the most important objective of a Flemish family business<sup>1</sup>.

Nevertheless, it appears that this desire is not always easy to realise in practice. Despite the fact that family businesses are blessed with a longer life than non-family businesses<sup>2</sup>, it appears that fewer than two-thirds of family businesses are still in family hands after the second generation, and only 13 % have retained their familial character after the third generation<sup>3</sup>. Succession is thus a major challenge for every family business.

This publication analyses the succession process in greater detail and examines which factors contribute to arriving at a successful succession arrangement. In particular it addresses the psychological aspects which are present in every succession process. The success factors for a smooth succession have been assembled into the "succession scorecard", which is presented in the second part of this publication.

### I.2. Succession is a process

Succession isn't a one-time event, but rather a process which goes on for five to ten years.

Four (groups of) actors who play a role in the family business are involved in the succession process : the family, the family business itself, the owners of the family business and a number of individuals, including firstly the transferor and the successor.

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<sup>1</sup> VOORDECKERS, W. and VAN GILS, A. (2003) *Governance in het Vlaamse familiebedrijf*, Brussel, Institute for Family Business.

<sup>2</sup> MILLER, D. and LE BRETON-MILLER, I. (2005) *Managing for the long run. Lessons in competitive advantage from great family businesses*, Boston, Harvard Business School Press, 13.

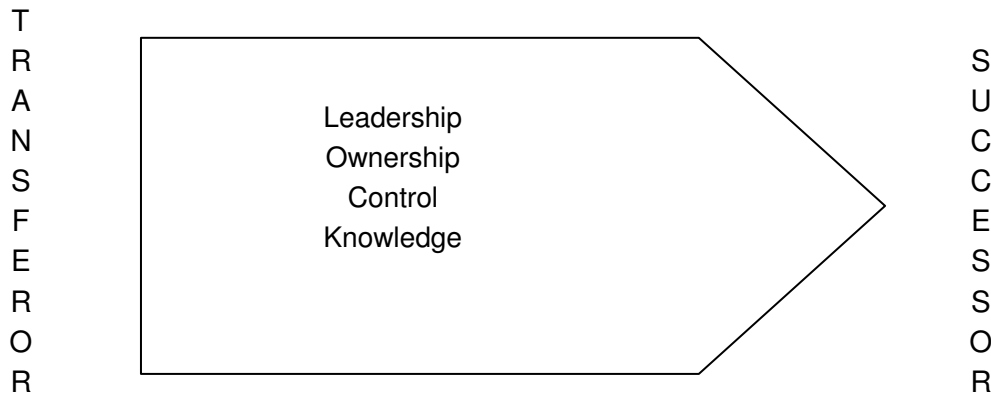
<sup>3</sup> WARD, J. (1987) *Keeping the family business healthy*, San Francisco, Jossey-Bass, 2 et seq.

### I.3. What happens during the succession process ?

In essence, two things take place during the various phases of the succession process.

Firstly, leadership, knowledge, control and ownership are gradually transferred from one generation to the other (figure 1).

Figure 1 Succession process



First, the leadership of the family business is transferred, which will have as a consequence that the younger generation assumes the leadership function in the place of the transferor.

It is important that the ownership also be transferred: otherwise we cannot speak of a genuine succession. This does not detract from the fact that, in practice, the management and the ownership are generally *not* transferred simultaneously. Usually the transfer of the management comes first, and that of the ownership only afterwards. A number of years can lie between these two transfer moments. According to research, the transfer of management and ownership takes place simultaneously in only 54 percent of the cases for transfers within the family<sup>4</sup>.

It is also important that the control be transferred. It is true that in many estate planning arrangements the ownership is transferred while the control over the family business ultimately remains in the hands of the senior generation, which handles the management of a control vehicle<sup>5</sup> like a holding company, a foundation or a trust. In this case, we cannot speak of a genuine succession arrangement.

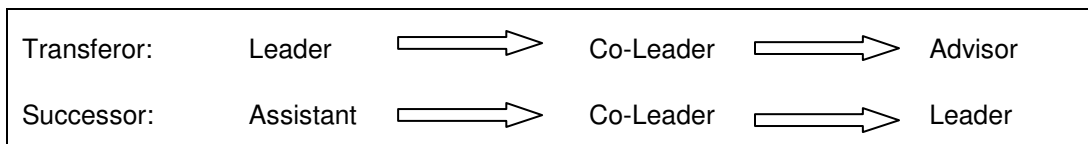
<sup>4</sup> VAN DER EIJK, R.P., FLÖREN, R. and JANSEN, S.F. (2004) *Financiering van de bedrijfsoverdracht binnen familiebedrijven*, Kluwer, Deventer, 32.

<sup>5</sup> VERBEKE, A. (2005) De EP-familie, *Tijdschrift voor Estate Planning*, no. 1, 5.

Along with management, ownership and control, knowledge too is transferred. Certain authors regard succession as a transfer of social capital from one generation to the next<sup>6</sup>. Social capital can be defined as the resources which are available in and through personal and business networks. These resources include information, ideas, contacts, opportunities, power, influence, emotional support, goodwill, trust and cooperation<sup>7</sup>.

Secondly, during the succession process an exchange of roles takes place between the representatives of the two generations<sup>8</sup>. The active role of the transferor is gradually taken over by the successor. According to research, in most cases this evolution looks like this (figure 2) :

Figure 2 Exchange of roles during the succession process<sup>9</sup>



This figure shows how the respective roles of the transferor and the successor evolve during the succession process. When the successor joins the family business, he encounters an almighty transferor around whom the family business revolves: a monarch, as it were. After the successor has gradually won his spurs as assistant, he receives more and more management powers. Finally he becomes co-leader together with the transferor. In the final phase, the leadership of the family business is transferred to the successor and the transferor will function more as an advisor or consultant.

#### I.4. The process consists of various phases

Research has shown that the succession process can be divided into several phases<sup>10</sup>. A distinction must be made between four phases :

<sup>6</sup>CABRERA-SUAREZ, K., DE SAA-PEREZ and GARCIA-ALMEIDA, D. (2001) The succession process from a resource and knowledge-based view of the family firm, *Family Business Review*, XIV/1, 37 et seq.

<sup>7</sup>BAKER, W. (2000) *Achieving success through social capital*, San Francisco, Jossey-Bass, 1.

<sup>8</sup>See particularly : HANDLER, W. (1990) Succession in family firms : a mutual role adjustment between entrepreneur and next-generation family members, *Entrepreneurship Theory and Practice*, 37 et seq.

<sup>9</sup>Inspired by HANDLER, W., *op.cit.*

<sup>10</sup>HUGRON, P. (1991) *L'entreprise familiale. Modèle de réussite du processus successoral*, Montréal, Institut de recherches politiques et presses HEC; CADIEUX, L. (2005) La succession dans les PME familiales : proposition d'un modèle de réussite du processus de désengagement du prédecesseur, *Revue internationale PME*, 18/3-4, 31 et seq.

## 1. The pre-business phase

This phase begins in the early youth of the candidate-successor and ends when he joins the family business. It is characterised by a number of paradoxes. It lasts the longest time, but it is experienced by all players in a largely unconscious way.

A second paradox consists in the fact that in this phase the candidate-successor still plays absolutely no role (in the business), yet he is already strongly influenced by it.

In this phase the company is managed solely by the transferor, who is usually completely occupied with the family business. The first imperative is that the family business must survive. Customer satisfaction, innovation and the build-up of a professional organisation also gradually require the transferor's attention. Because of his double prestige as father and manager, the transferor is a model for his children.

Why is this period so important for the candidate-successor, although he experiences it largely unconsciously? The crucial point is that values, norms and family customs are transferred during this period. The perception of the family business by the candidate-successor during this period fundamentally defines his behaviour and attitudes for the future.

The pre-business phase is therefore called the socialisation phase. It includes key moments in the development of the successor's identity. Characteristic here is that the company and the family usually interpenetrate one another. Very early on the young people from the family environment are busy with the various aspects of the business (suppliers, customers and so on) which later produces a more in-depth knowledge of the market and the sector<sup>11</sup>.

According to research, many successors have found that they could best learn the basic operations of the family business via vacation jobs<sup>12</sup>. This sometimes entails that children do not go to work elsewhere, but immediately join the family business.

In this period, the transfer of the values is of great importance. According to one study<sup>13</sup>, in this period it is above all the following values which are transferred : a feeling for business, working hard, unity within the family, autonomy, entrepreneurship, growth and honesty.

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<sup>11</sup> MOULINE, J.P. (2000) Dynamique de la succession managériale dans la PME familiale non cotée, *Finance contrôle stratégie*, 3/1, 208 et seq.;

<sup>12</sup> LAMBRECHT, J. and BAUM, L. (2004) *Naar een familiedynastie. Gouden Tips van en voor bedrijfsfamilies*, Tielt, Lannoo, 56 et seq.

<sup>13</sup> GARCIA-ALVAREZ, E., LOPEZ-SINTAS, J. and SALDANA GONZALVO, P. (2002) Socialization patterns of successors in first- to second-generation family businesses, *Family Business Review*, XV/3, 189 et seq.

## 2. The entry into the family business

At the beginning of this phase, the candidate-successor takes his first steps within the family business. This phase ends at the time that the candidate-successor enters the management of the family business, and therefore is actually designated as successor. Characteristic for this phase is that the candidate-successor is not yet the successor, but in most cases he is not just a normal employee, either.

In this phase the impact of the family is still very great. This is related to the age of the candidate-successor, which ranges between 18 and 35 years. Where until now the relationship between the candidate-successor and the transferor was primarily one of parent and child, a transformation now occurs. The transferor and the candidate-successor will increasingly relate to one another as adults. This doesn't always succeed. Above all in the event of conflicts there is a risk that the transferor reverts to treating the candidate-successor as a child again, and puts an end to the dispute by means of an authoritarian intervention<sup>14</sup>.

In this phase generally very little happens in terms of ownership. Since the candidate-successor still has everything to prove, in this phase the transferor will not yet be inclined to implement radical changes with regard to ownership. Moreover, it is possible that other candidate-successors are still sitting in the pipeline. Also, in this phase the transferor generally does not yet know what he will do about asset distribution with the children who will not be active in the family business.

Through the arrival of a candidate-successor, a significant change takes place in the family business itself. The candidate-successor must find his place in the family business. Depending on his education and experience (outside the family business), he will begin either at the bottom of the ladder or in a management position.

Beginning at the bottom of the ladder offers a number of advantages<sup>15</sup>:

- one gets to know the family business very well;
- one learns skills which are specific for the family business;
- by interaction with other players in the family business, the candidate-successor becomes accepted and gains credibility;
- the candidate-successor can develop strong relations with important stakeholders.

On the individual level, the transferor undergoes a change in role. For the first time, his role is not limited to being the almighty monarch around whom everything in the family business revolves. In relation to the candidate-successor he must develop into a mentor who transfers his knowledge to the candidate-successor.

However, the most important change is experienced by the candidate-successor. Everyone in the family business keeps an eye on him, which in some cases can generate a feeling of insecurity.

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<sup>14</sup> SORENSON, R. (1999) Conflict management strategies used by successful family businesses, *Family Business Review*, XII/4, 325 et seq.

<sup>15</sup> LIEVENS, J. (2000) *Opvolging in het familiebedrijf. Succesvolle strategieën*, Tiel, Lannoo, 95.

As of this phase, the candidate-successor becomes deeply immersed in the succession process. It is important that he experiences this process in a positive way. In order to make this possible, a number of conditions on the personal and the relational level must be satisfied<sup>16</sup>.

On the personal level, the experience of the candidate-successor will be more positive depending on the degree to which a number of psychological needs are fulfilled. Firstly, the candidate-successor must experience that the family business is really his "thing". If the activity of the family business doesn't really fall within his sphere of interest, the candidate-successor is unlikely to come into his own in the family business. Consequently, the activity of the candidate-successor in the family business must facilitate his own personal psychological identity<sup>17</sup>. Sons and daughters sometimes find it difficult to step out of the transferor's shadow, yet it is important that they do so and become appreciated for their own abilities.

Further, according to Handler<sup>18</sup>, account must be taken of the fact that candidate-successors have different needs depending on their age. Successors who are in their early twenties above all want the freedom to discover new things. For them, a period of working elsewhere will often satisfy this need. Older successors (29-39 years) mainly want to evolve in their career, while even older successors primarily strive to maintain the balance between their career and their family life.

On the personal level, finally, the candidate-successor above all wants to be able to have an impact. He wants to be able to implement changes or collaborate on them. It goes without saying that this differs sharply from individual to individual, and above all depends on a person's attitude vis-à-vis authority.

On the relational level, mutual respect and understanding between the transferor and the candidate-successor is an essential condition so that the latter experiences the entry as positive (see below). Secondly, a good understanding between the various children who are active in the family business is important. A distribution of the tasks and clear agreements about who will be the successor can facilitate this. Furthermore, the experience of the candidate-successor will be more positive if the continuity of the family business is experienced as a real value of the family. Finally, family conflicts will have a negative impact on the experience of the candidate-successor.

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<sup>16</sup> HANDLER, W. (1992) The succession experience of the next generation, *Family Business Review*, V/3, 283 et seq.

<sup>17</sup> SCHWASS, J., Understanding the successor's challenges, in : WARD, J. (2005) *Unconventional wisdom. Counterintuitive insights for family business success*, Chichester, John Wiley & Sons, 86-87.

<sup>18</sup> HANDLER, W. (1992) The succession experience of the next generation, *Family Business Review*, V/3, 283 et seq.

### **3. The collaboration phase**

This phase begins at the moment that the successor is designated as such. In the vast majority of cases, the transferor also continues to handle the management of the family business. It is a phase of co-management, in which successor and transferor work together.

In this phase, fundamental changes take place in the relationship between the two generations. The relationship between transferor and successor is one of adult to adult.

Since in this phase the successor generally finds himself in the age category between 35 and 50, by that time he has generally founded his own family.

On the ownership level, things are often agitated in the third phase. Although in this phase the successor co-manages the family business, he has not yet become an owner thereof. It frequently happens that the transferor in this phase stubbornly clings to the ownership and postpones the elaboration of an ownership arrangement. Often this is a way to continue exercising control over the successor. The successor will generally perceive such behaviour on the part of the transferor as unfair. Sometimes this leads to a conflict, with the successor leaving the family business for a period. In this phase it will be crucial for the successor to get clarity about the future ownership division, especially when inactive shareholders will also be acquiring an ownership interest.

In the family business itself a period is commencing in which successor and transferor share and work together in the management of the family business. This doesn't always go smoothly.

In many family businesses there is no clear job description and task delimitation between transferor and successor, which often means that there is an overlapping between the roles of transferor and successor. It appears that one-half of the transferors in this period are still doing tasks which could have been delegated to the successor. In this phase the question can also arise as to who is the actual leader of the family business.

On the personal level as well major changes are taking place for both the transferor and the successor.

Generally in this phase the successor has acquired somewhat more stability, so that he can concentrate on growing the family business.

The mission of the transferor is entirely different. What he has to do is gradually transfer the management to the successor and prepare himself for the period in which he actually steps away from the family business and which is usually situated in the fourth phase.

#### **4. The transfer of management and ownership**

In the fourth phase, both management and ownership are transferred to the successor. In this phase, the successor has developed into the undisputed new leader of the family business. In this phase, the transferor further works out the transfer of the ownership, which possibly already began in an earlier phase. In addition, he assumes a new role, which generally is one of "on-call advisor"<sup>19</sup>.

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<sup>19</sup> LAMBRECHT, J. and LIEVENS, J. (2006) *Het roer uit handen. Doorgeven van het familiebedrijf*, Tiel, Lannoo Campus.

## **II. THE SUCCESSION SCORECARD® : A RESOURCE FOR EVERY FAMILY BUSINESS**

In this section we examine what factors must be present for a succession to be successfully implemented<sup>20</sup>. On the basis of the literature and our practical experience, it appears that ten elements may be regarded as success factors. These elements can be used as a scorecard with regard to succession : the more factors are present, the greater is the chance that the succession will be successfully completed.

### **Success factor 1 : The transferor finds a new role**

A succession cannot succeed if the transferor cannot let go. The transferor really holds the key for a successful succession in his own hands. If he proves obstructive, the succession process will take much more time and it will not go smoothly.

It is well known that some transferors have difficulty preparing and carrying out their own departure. Extensive research has been done on the psychodynamics lying at the basis of the transferor's resistance to succession<sup>21</sup>.

In order to let go in a constructive manner, the transferor must attain certainty and security in four areas.

A first area is that of security about the organisation of the family business.

The objective of every family entrepreneur should consist in preparing the family business to function without him. This means that the family business is organised and functions in a professional manner<sup>22</sup>. We find the main aspects of this in success factor number eight. Then the family entrepreneur seeks security on the personal financial level. Family entrepreneurs frequently have worked hard their whole lives and are concerned about financial security. The key to financial security is adequate financial planning.

Thirdly, the entrepreneur seeks security on the level of his family. Here entrepreneurs sometimes strive for a false type of security. They hope that their children will follow in their footsteps and therefore obstinately refuse to see the reality before their eyes, for example when their children are not sufficiently competent to succeed them. In this way they try to protect their children.

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<sup>20</sup> The scorecard is based inter alia on : BARACH, J. and GANITSKY, J. (1995) Successful succession in Family Business, *Family Business Review*, VIII/2, 131 et seq.

<sup>21</sup> LANSBERG, I. (1988) The succession conspiracy, *Family Business Review*, I/2, 119 et seq.

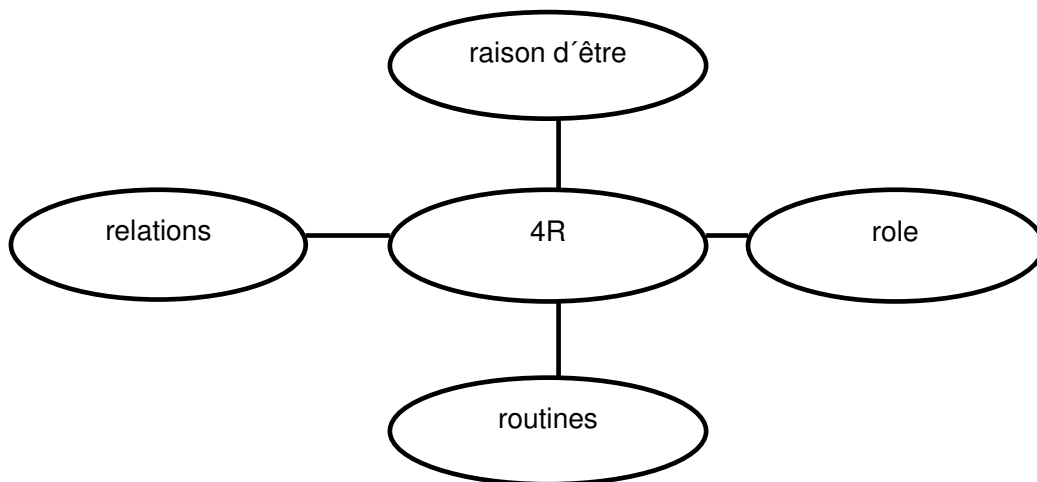
<sup>22</sup> FLAMHOLTZ, E. and RANDLE, Y. (2000) *Growing Pains. Transitioning from an entrepreneurship to a professionally managed firm*, San Francisco, Jossey-Bass.

Therefore it is of the utmost importance for the family entrepreneur to clearly perceive the reality as far as his children are concerned. By not letting go, one is often trying to shut out the reality in order to thus further protect the children. This is connected to the conventional dilemmas of child-raising.

It is therefore recommended to give the children absolutely no special treatment in the family business, and to insist on seeing the reality before one's eyes. It is vitally important here that the parents have adult expectations with regard to their children and apply the same criteria to them as to other personnel members. Thus children must be able to present their plans, their expectations and their intentions with regard to the family business.

Finally, the entrepreneur also wants security on the personal psychological level. For many entrepreneurs, graciously taking one's leave is also difficult on the personal level. For the transferor, the possibility to engage in self-reflection will be an important aid in making it easier to let go. For busy entrepreneurs, however, self-reflection is not always evident<sup>23</sup>. Nevertheless, reflection on the following 4 R's is indicated (figure 3) :

Figure 3 the 4 R model



- What raison d'être does the transferor have after the succession ? For the entrepreneur whose personality is completely focused on the company, it comes down to finding an identity outside the family business and gradually coming to see that there is still life and a reason to exist after work.

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<sup>23</sup> KETS DE VRIES, M., *op.cit.*, 214.

- This is sometimes made easier when one reflects on the new role which one can play. It is a misconception to think that an entrepreneur who has transferred management and ownership has absolutely no more place in the family business. Empirical research<sup>24</sup> demonstrates that, after their departure, transferors still play a variety of roles. They can be active as "on-call advisor"<sup>25</sup>.  
In order to exclude any misunderstanding and avoid confusion inside and outside the family business, it is important that the new role be clearly delineated, so that both transferor and successor know precisely what they are dealing with. Obviously, new roles outside the family business can also be very important for the transferor.
- Thirdly, it is important that the transferor develop new relationships. The circle of acquaintances of many entrepreneurs is limited to the business world. It can be interesting to widen this circle after the departure.
- Finally, the transferor will have to adopt new routines. In other words, he no longer has to be busy with the family business at all times of the day and night.

### **Success factor 2 : A capable and well-motivated successor becomes new leader**

Central in the succession process is that the management of the family business ends up in the hands of a competent and well-motivated successor. But what does this mean? In other words : what qualities are required of a successor? From Canadian research<sup>26</sup> it appears that the following characteristics are deemed important for candidate-successors : integrity, commitment to the family business, ability to command respect from the personnel, decisiveness and interpersonal skills<sup>27</sup>. Other authors have divided the characteristics of candidate-successors into three categories<sup>28</sup>. First there are the leadership qualities which every manager must have. According to some authors<sup>29</sup> it is important that the successor be a visionary entrepreneur. Secondly come management skills. However, even more is expected from the future leaders of family businesses. They must demonstrate commitment and respect for the family.

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<sup>24</sup>CADIEUX, L. (2005) La succession dans les PME familiales : proposition d'un modèle de réussite du processus de désengagement du prédecesseur, *Revue internationale PME*, 18/3-4, 31 et seq.

<sup>25</sup> LAMBRECHT, J. and LIEVENS, J., *op.cit.*

<sup>26</sup> CHRISMAN, J., CHUA, J. and SHARMA, P. (1998) Important attributes of successors in family businesses : an exploratory study, *Family Business Review*, XI/1, 19 et seq.

<sup>27</sup> For a list of all characteristics, see : LIEVENS, J. (2000) *Opvolging in het familiebedrijf – succesvolle strategieën*, Tielt, Lannoo, 115 et seq.

<sup>28</sup> IBRAHIM, A., SOUFANI, K., POUTZIOURIS, P. (2003) Qualities of an effective successor : an empirical investigation, *Proceedings of the 14th FBN Conference*, Lausanne, September 2003.

<sup>29</sup> MOULINE, J.P., *op.cit.*, 213.

Just as important as the competence is the motivation of the successor<sup>30</sup>. Successions work out a great deal better when the candidate-successor has a strong desire to lead the family business and also finds this a fascinating challenge. Moreover, the successor must have had the freedom to choose to join the family business<sup>31</sup>.

Once officially designated as successor, which comes at the end of the entry phase (see above), the representative of the next generation is confronted with a new challenge. He must prove himself as the new leader. This doesn't always go smoothly, because the successor generally finds himself in the third succession phase (see above), in which he shares with the transferor the responsibility for managing the family business.

As already mentioned, the great challenge for the successor consists in striking a good balance between the continuity of the management on the one hand and innovation on the other. Such innovation obviously entails a risk of conflicts with the transferor. Some believe that crises are unavoidable<sup>32</sup>. Yet only a minority of successors achieve credibility by resolutely innovating<sup>33</sup>. Frequently it is a more successful strategy not to make changes all too suddenly, but to introduce innovations around an axis of continuity. In this way, the family network, which is based on trust, remains intact and the successor will also experience less resistance on the part of the transferor.

### **Success factor 3 : The relationship between the transferor and the successor is good**

A good relationship between transferor and successor is a crucial success factor for a smooth succession arrangement<sup>34</sup>.

According to research, mutual respect and understanding are the most important characteristics of a good relationship. Other important components are trust, support, feedback, learning from one another, fun and friendship<sup>35</sup>. Most successors say that a good relationship with the transferor must be built up over time. This implies that the relationship evolves from parent-child to that of colleagues in the family business<sup>36</sup>.

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<sup>30</sup> VENTER, E., BOSHOFF, C. and MAAS, G. (2005) The influence of successor-related factors on the succession process in small and medium-sized family businesses, *Family Business Review*, XVIII/4, 283 and the references cited there.

<sup>31</sup> VENTER, E. et al, *op.cit.*, 297; LAMBRECHT, J. and LIEVENS, J., *op.cit.*

<sup>32</sup> CASSANET, D. (2004) *Management de l'entreprise familiale : réussir sa succession*, Paris, Robert Jauze , 69 et seq.

<sup>33</sup> BARACH, J., GANITSKY, J., CARSON, J. and DOOCHIN, B. (1988) Entry of the next generation : strategic challenge for family businesses, *Journal of Small Business Management*, 49 et seq.

<sup>34</sup> KETS DE VRIES, M. , *op.cit.*, 213; HANDLER, W. (1989) *Managing the family firm process : the next generation family member's experience*, Boston, Boston University, Ph.D. thesis, 152

<sup>35</sup> HANDLER, W., *op.cit.*, 149 et seq.

<sup>36</sup> SCHWASS, J. (2005) *Wise growth strategies in leading family businesses*, London, Palgrave, 42 et seq.

The positive relationship between successor and transferor is facilitated by a number of elements. One of these is a healthy sense of self-confidence on the part of the successor. Secondly, the successor must earn the transferor's respect<sup>37</sup>. It is no less important that the transferor grant the successor sufficient freedom<sup>38</sup>, which will only be possible if the transferor has a positive self-image<sup>39</sup>. This will contribute to the development of a mentor relationship, whereby the transferor can take pleasure in seeing that the successor is acting independently. Kets de Vries rightly observes that both the transferor and the successor can then get a "feeling of continuity"<sup>40</sup>.

The pioneering research of Davis<sup>41</sup> demonstrated that a connection also exists between the quality of the relationship between transferor and successor and their respective ages. For example, the relationship between the two is generally most harmonious when the age of the transferor is between 50 and 60 and that of the successor is between 23 and 33.

Unfortunately, in some cases the relationship between transferor and successor is (seriously) disturbed. In that event, successors complain about the conservatism, lack of trust and critical attitude of the transferor. A (total) lack of (positive) feedback and recognition as well as faulty communication are also symptomatic for a bad relationship<sup>42</sup>. Such an attitude on the part of the transferor sometimes has deep psychological roots<sup>43</sup>. Unfortunately, in a number of cases it has as a consequence that the succession fails entirely.

#### **Success factor 4 : Good relations exist within the family**

Good family relations are perhaps the most important success factor for an optimal succession arrangement<sup>44</sup>. In their interesting book on family businesses<sup>45</sup>, C. and E. Hoover argue that relational intelligence is the cornerstone of a successful family business.

According to them, relational intelligence consists firstly of certain foundations, and secondly of the skills to put these foundations into practice.

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<sup>37</sup> HANDLER, W., *op.cit.*, 155

<sup>38</sup> LAMBRECHT, J. and LIEVENS, J., *op.cit.*

<sup>39</sup> HANDLER, W., *op.cit.*, 156.

<sup>40</sup> KETS DE VRIES, M., *op.cit.*, 213

<sup>41</sup> DAVIS, J. and TAGIURI, R. (1989) The influence of life stage on father-son work relationships in family companies, *Family Business Review*, II/1, 47 et seq.

<sup>42</sup> HANDLER, W., *op.cit.*, 161

<sup>43</sup> KETS DE VRIES, M., *op.cit.*, 82 et seq.

<sup>44</sup> MORRIS, M., WILLIAMS, R., ALLEN, J. and AVILA, R. (1997) Correlates of success in family business transitions, *Journal of Business Venturing*, 12, 385 et seq.

<sup>45</sup> HOOVER, E. and LOMBARD HOOVER, C. (1999) *Getting along in Family Business. The relationship intelligence handbook*, New York, Routledge; see also WHITESIDE, M., ARONOFF, C. and WARD, J. (1993) *How families work together*, Marietta, Family Enterprise Publishers.

The foundations of relational intelligence are trust, respect and optimism.

A high degree of trust among the various family members is of vital importance for building up good family relations. This applies all the more during the succession process, which is generally characterised by a climate of anxiety and uncertainty. Trust between the family members is an important bulwark against this. The more honesty, openness, reliability and integrity prevail within the family, the greater the trust will be.

Mutual respect among the family members is another important characteristic of good family relations. This contrasts with the tension, rivalry, animosity and hostility which characterise many family businesses.

Thirdly, optimism about the family business is important. This entails above all that the family members have positive expectations for the future of the business and about their mutual relations.

These foundations of relational intelligence will only be created, maintained and strengthened if the family possesses a number of essential skills.

In a family business, open communication is the fuel of relational intelligence. Many family businesses are very poor in this regard, so that it is sometimes appropriate to draw up a formal communication charter that is signed by all family members.

Other important skills are : being able to listen well - an essential part of good communication - being able to solve problems constructively and adequate planning.

If creating and maintaining good family relations offers a competitive advantage for a smooth succession, then it is very important to manage this aspect.

It would be useful for a relationship charter to be drawn up in each family business which is confronted with a succession. In such a charter, a SWOT analysis of the family relations is performed and objectives are formulated to improve them. An important part of such a relationship charter consists of clear agreements about conflict management. The corporate culture of family businesses, which generally are governed by the strong personality of the founder, frequently impedes a flexible resolution of conflicts. Founders are generally control freaks who brook little involvement from others. This means that within the family business few or no systems exist to manage conflicts. Yet successful successions generally occur in family businesses which have developed such systems. One might consider working out a consultation procedure, the intervention of the family forum, and so on.

### **Success factor 5 : Governance of the company and of the family**

Succession is undoubtedly facilitated when the family and the family business score well in the field of governance<sup>46</sup>. For many family businesses the succession phase even forms an occasion to commence with governance.

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<sup>46</sup>LIEVENS, J. (2004) *Governance in het familiebedrijf. Sleutel tot succes*, Tielt, Lannoo.

This will be less necessary if the succession process results in the successor acquiring all of the shares in the family business. In this case, the successor holds absolute sway and he will be the only one who runs the risks as the new owner of the family business.

Things are different when several representatives of the new generation must work together after the succession. In order to avoid that this cooperation gives rise to conflicts, it is recommended to introduce a sound system of governance. The necessity of doing so also exists when the ownership after the succession will be in the hands of the successor, on the one hand, and of family members who are not active in the company, on the other. Governance will play a vital role in this case as well.

Governance in a family business consists of governance of the company and of the family.

### **Governance of the company**

With regard to the governance of the company, just as in other companies an active board of directors is vitally important.

The board of directors will play a major role in the succession phase. Firstly, a well-functioning board of directors will be an "insurance policy" against an unexpected disappearance of the founder due to sudden death. In this situation, the board of directors will be able to ensure the continuity of the management.

More generally, the board of directors can help the family define its vision of the future and above all objectify the succession process. The board of directors can make a major contribution to calmly examining the various succession options which the family has and can accompany the succession process.

The board of directors can also play an important role in preparing the successor and in the ultimate selection.

### **Governance of the family**

Along with governance of the company itself, in a family business attention must also be paid to governance of the family or family governance, above all in the succession period. Family governance consists of a shared owner's vision, a family structure and agreements.

#### ***A shared owners' vision***

Firstly, it is important that the family share the same owner's vision. The owner's vision distinguishes itself from the vision and mission of the company, which generally summarises in a catchphrase what the company stands for and where it is headed. The owner's vision is the expression of the family's most fundamental convictions with regard to the company. It is crucially important because it is the basis for the structure of ownership, the governance and the management of the family business.

In most family businesses, the owner's vision is deeply rooted. It goes back to the most profound beliefs of the founder. If the latter, for example, believed that the family business

should be led by only a single person, one will frequently still find traces of this in the owner's vision many years later.

Family businesses risk being dragged into serious conflicts when the different family owners are not on the same wavelength about the owner's vision. Often the result is that the owners' block falls apart.

For example, it regularly happens that family owners whose owner's vision differs substantially from that of the other family members wish to sell off their shares. This can sometimes generate a domino effect which leads to the sale of the entire family business.

The shared owner's vision presumes that the family agrees on six issues<sup>47</sup>:

- the values for which the family stands
- the basic philosophy (business first, family first, owners first or an equilibrium between these philosophies)
- the type of owner that one wants to be : operational owner, directing owner, passive owner, engaged owner
- how the management of the family business is exercised (one leader or a leadership team)
- the scope of the strategy
- the desired financial return, the risk profile and the share's liquidity.

### ***The family forum***

A family structure is formed by the family forum. The family forum:

- is the place where family members confirm their involvement vis-à-vis one another and the family business. In this way it contributes to strengthening the family ties.
- is an organ of communication. It is the place where family members are made aware of information about the family business.
- defines the playing rules which the family members must observe vis-à-vis the family business. These playing rules are established in the family charter to be discussed below.
- monitors the respect of the family values by the family business.
- is the designated place to discuss and resolve certain (but not all) conflicts. For example, experience has shown that problems and conflicts with the management or the day-to-day concerns of the family business are best discussed elsewhere. Nor is the family forum the right place to criticise the management.
- takes the training of family members and more specifically the successors to heart and regularly organises suitable succession programmes.

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<sup>47</sup> On this, see particularly : WARD, J., Strategic planning – it starts with the family, in WARD, J. (2005) *Unconventional wisdom. Counterintuitive insights in family business success*, Chichester, John Wiley & Sons, 48 et seq.

### ***The family charter or family constitution***

It is virtually impossible to achieve the long-term vision of the family without clear agreements being reached within the family about important issues. These agreements are established in the family charter, a type of family constitution.

Agreements are necessary because they allow one to anticipate problems and conflicts. When a family is unexpectedly faced with a particular problem, coming up with the right solution is not always immediately evident. Often attention is devoted not to the problem but rather to the person who gives rise to it. Let's take the example of a family member who comes around looking for a job in the family business. It is much simpler when clear, objective employment conditions have been established in advance. If that family member does not meet the required criteria, he can be turned down without this necessarily resulting in a personal conflict. A charter will play an especially important role during a succession as well, since it will define what conditions the candidate-successor(s) must satisfy.

Every family is different, and so agreements must be custom-tailored. The content of the family charter also depends on the phase in which the family business finds itself, the size of the family, the number of active and passive shareholders, the culture of the family and the family business, the degree of harmony within the family, etc. Nevertheless, most charters will devote attention to the following subjects :

- the family values and vision
- the ownership of the family business
- the financial objectives
- careers in the family business
- the compensation for active and inactive family members
- the governance of the family business
- the governance of the family
- the role of non-family members in the family business
- the communication
- family harmony and conflict
- education and training
- efforts for young people
- philanthropy.

### **Success factor 6 : The successor forms a team with non-family members**

It is important that the successor has an eye for the ambitions and aspirations of non-family members who are active in the family business. These include firstly the non-family managers. In their fascinating study "Team management of the family business"<sup>48</sup> Prof. Johan Lambrecht and Katrien Baetens list a number of precepts which must be taken into account by the family members vis-à-vis outside managers :

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<sup>48</sup> LAMBRECHT, J. and BAETENS, K. (2005) *Teammanagement van het familiebedrijf*, Tielt, Lannoo Campus.

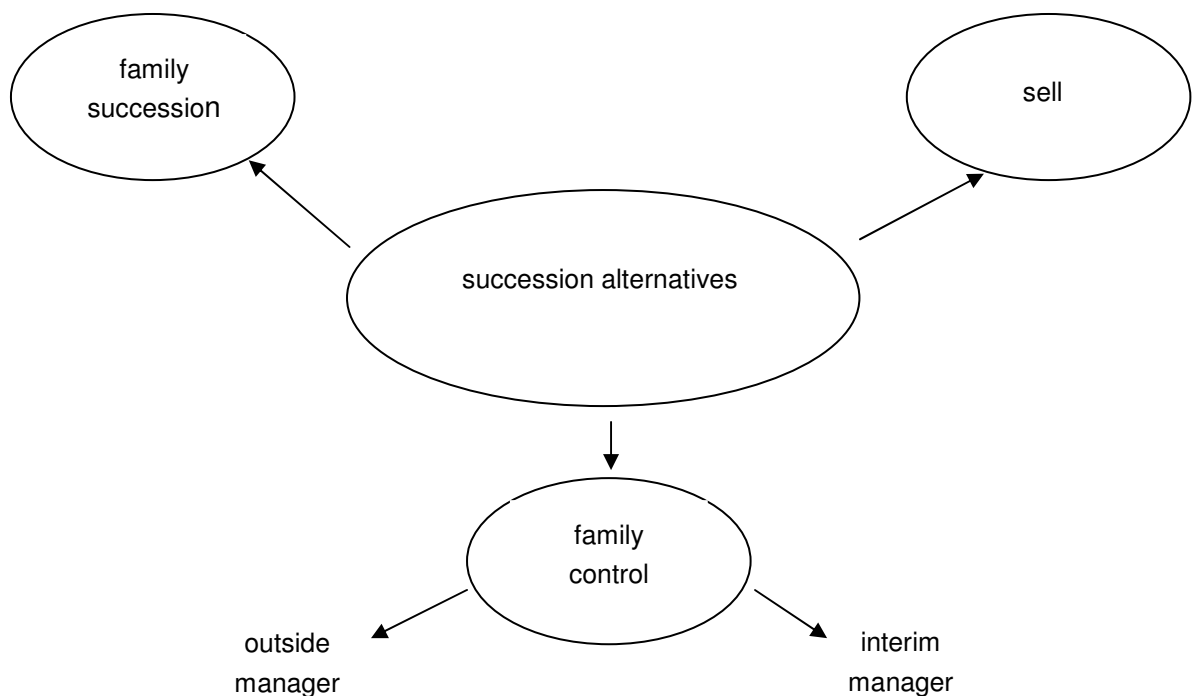
- Firstly, the non-family members want responsibilities and opportunities which correspond to their abilities. In this connection, it will sometimes be necessary to limit the number of active family members.
- Respect and recognition is the fuel of a good relationship with non-family members.
- One must communicate honestly with outside managers about the future.
- The outside managers must be involved in the strategy.
- Communication and information is a cornerstone in dealing with outside managers. Listening to them is extremely important.
- Finally, the family must give its trust.

**Success factor 7 : All alternatives are thoroughly studied**

It is of the utmost importance that, before deciding about family succession, all alternatives once again be reviewed and carefully weighed against one another.

Generally the family will have four alternatives, which are depicted in figure 4.

*Figure 4 Succession alternatives*



Within the framework of the Family Businesses Barometer 2006, the Belgian Institute for Family Business asked why entrepreneurs opt for family succession. This question was answered as follows :

51 %	Give a chance to the children
34 %	Enable the children to earn money
29 %	In the general interest
23 %	Offer financial security to the family
21 %	Continue the family tradition
13 %	Make own retirement possible
10 %	Protection of loyal personnel members
6 %	Hold the family together

The most important motive apparently consists in giving a chance to the children, which means offering them the possibility to develop themselves autonomously, i.e. as an independent entrepreneur.

Naturally, besides these reasons there are still other motives that prompt family entrepreneurs to opt for succession by a family member<sup>49</sup>:

- Family succession makes it possible for their personal ideas and values to live on.
- They get the feeling that their life's work is being placed in good hands.
- They can remain in contact with the family business and perhaps even still exert a bit of influence over it.
- They have the feeling that all their efforts were not for nothing.

### **Conditions for the family succession**

It is important that family succession is only sensible when a number of basic conditions have been fulfilled:

- The family must possess suitable candidate-successors, who opt with full conviction for the family business.
- An actual commitment on the part of the family to continue the family business must appear from the family strategic plan.
- The family must share the same owner's vision.
- The chosen strategy must make it possible for the family business to remain in family hands.

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<sup>49</sup> LEACH, P. and BOGOD, T. (1999) *Guide to the family Business*, London, Kogan Page, 163.

### **Sale of the family business**

Under certain circumstances, the sale of the family business will be an alternative that one must (dare to) look at head on.

For many family entrepreneurs, this will not be an easy exercise<sup>50</sup>. After all, for most entrepreneurs the formation and development of the family business entailed not just a financial, but also an emotional investment. Moreover, they fear that the dynamics and other positive characteristics of the family business will dissipate once it is sold to another (non-family) company. Close ties with the personnel can also frequently stand in the way of a sale. Finally, family entrepreneurs often have difficulties with the fact that a buyer would change the culture of the family business or position it in a new market segment. Nevertheless, selling will sometimes be the only way out, when family succession is impossible due to the lack of successors (or competent and motivated ones). Other pro sale arguments can be:

- The entrepreneur has insufficient financial resources to be able to comfortably withdraw from the family business.
- The family relations make a family succession impossible.
- The future economic prospects of the family business aren't all that rosy.
- The sector in which the family business is active is undergoing a consolidation, so that continuing on one's own is too risky.
- The entrepreneur has lost his interest in the family business.
- The entrepreneur was made an offer so attractive that he can't turn it down.

In light of the emotional aspects which accompany a potential sale, an objective approach is recommended. This also applies when it comes to evaluating the possible interested parties.

### **Family control and outside manager**

When a family succession is impossible and the family does not want to sell the family business, a call can be made on an outside manager to lead the company, whether temporarily or not. In this way, the family can retain the control over the family business, but it fills the gap which has developed on the management level.

Outside managers generally stimulate the professionalisation of the family business. They can also bring in interesting new ideas which facilitate the growth of the family business.

Working with an outside manager can only be successful if a high degree of mutual trust exists between the two parties. This is perfectly understandable, since the family is entrusting its principal possession to a third party, while the latter is allowing his career to be significantly defined by the family.

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<sup>50</sup> On this process, see : VAN DE KIMMENADE, M. (2003) *Verkoop van een familiebedrijf. Psychologische aspecten*, Tilburg, Centrum voor het Familiebedrijf.

In choosing the outside manager, one must make sure that he clearly understands that he will be working in a family business, with all of the advantages and drawbacks that this entails. Many outside managers adopt a radical attitude and completely ignore the family factor. This is rarely successful and frequently ends in the premature dismissal of the professional manager. By contrast, a good outside manager will regard the family as a major stakeholder, with which he deals in a constructive manner.

In certain cases it can be useful for the family business to call on an interim or "regency" manager. The latter assumes the management of the family business while waiting for the family successors to be fully prepared for their job. Moreover, they can be very valuable as mentors of the eventual successors. Studies have demonstrated that calling on such an interim manager can be an excellent choice from an economic perspective<sup>51</sup>.

### **Success factor 8 : The family business is professionally run**

For a variety of reasons, for a smooth regulation of the succession it is important that the family business be professionally run. As explained above, a professionally-led family business will offer the transferor the security that it will continue to perform well after his departure. And for the successor too it is important that he finds himself in a professional environment.

Obviously, exceptionally-performing family businesses have a strong business concept (product and market combinations), an ambitious vision and mission and a well-balanced strategy<sup>52</sup>. A strong advantage of family businesses is that with a small group of owners they can work out a real strategy for the long term.

Secondly, a family business, just like a non-family business, requires resources, especially human and financial ones. When the family does not have adequate financial resources to finance growth, it will either stagnate or have to go looking for outside capital. This option is not always without its dangers, since outside capital providers generally demand a higher return, intervene in the management, protect themselves against dilution and generally want a put-option, so that after a certain period they can compel themselves to be bought out. This can gradually hollow out the family character of the business.

Timely professionalisation in the areas of operating and management systems and business processes is important for the family business. Just like non-family businesses, family businesses therefore must professionalise in the areas of administration, accounting, sales, marketing, production, IT, transport, planning, structures, budgeting, performance measurement, communication, decision-making and so on.

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<sup>51</sup> WARD, J. , *op.cit.*, 63

<sup>52</sup> On professionalisation, see above all FLAMHOLTZ, E. and RANDLE, Y., *Growing Pains : Transitioning and Entrepreneurship to a Professionally Managed Firm*, San Francisco, Jossey Bass, 2000

This is sometimes hindered by the founder's vision<sup>53</sup>. Family businesses are frequently set up by strong personalities. Their idiosyncratic logic is hardwired into all of the processes, procedures, rules and habits. Over time this strength becomes a weakness, because it stands in the way of professionalisation.

Just as important in a family business as in a non-family business is the company culture. On this level too there is an interaction between the family and the company, since the culture of the family business is partly defined by the culture of the family. Values and habits which prevail in a family are transplanted into the company.

This can be positive when the family culture is characterised by flexibility, openness, innovation and creativity. But here too the problematic of the founder's vision threatens. If the founder is paternalistically oriented, the culture can be more of a handicap than an advantage.

#### **Success factor 9 : The succession leads to a proper regulation of the ownership**

A large share of the literature and research on succession relates exclusively to the transfer of the management. However, the succession is only complete if the ownership is also transferred.

One might erroneously think that the transfer of ownership is less emotionally-charged than the transfer of the management. In many cases, however, the opposite is the case. Here, too, tensions can develop, for example as a result of the question of who from amongst the children will be the owner after the succession, or at what value or price the ownership of the family business will be transferred<sup>54</sup>.

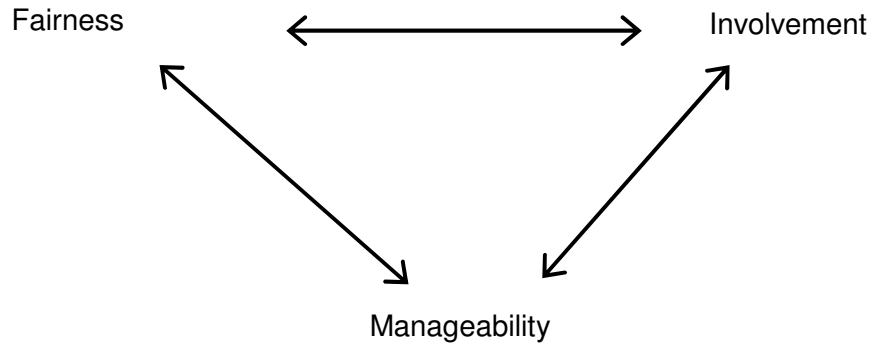
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<sup>53</sup> The term "founder's vision" comes from Vandenbroeck and Sanders. See : VAN DEN BROECK, H. and SANDERS, J. (2004) *Praktijkboek ondernemend veranderen*, Tielt, Lannoo.

<sup>54</sup> VAN DER EIJK, R.P., FLÖREN, R. and JANSEN, S.F. (2004) *Financiering van de bedrijfsoverdracht binnen familiebedrijven*, Kluwer, Deventer, 32.

According to Flören, when the ownership is transferred, it is important to strike a balance between the notions of fairness, involvement and manageability (figure 5)<sup>55</sup>.

Figure 5 Transfer of ownership<sup>56</sup>



Source : Flören, 2003

Most parents regard fairness as an important pillar on which a succession arrangement must be based. The inheritance laws of many countries reflects this by substantially limiting a parent's possibilities for favouring one particular child, in this case the successor<sup>57</sup>. If all children inherit (the shares in) the family business, as shareholders they are legally involved to an equal degree because they have equal voting power in the general meeting. An important prerogative of this body is the appointment of directors, so that the successor can soon find himself under threat of removal. Conflicts can develop which lead to the unmanageability and even the downfall of the family business.

In order to fix this, various legal techniques can be applied. First of all, a properly elaborated governance plan can offer a remedy. This will lead to a situation where each shareholder plays the role which is coming to him in accordance with agreements.

Even more efficient is the intervention of a legal vehicle in which the control over the family business is.

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<sup>55</sup>VAN DER EIJK, R.P., FLÖREN, R. and JANSEN, S.F. , *op.cit.*, 33

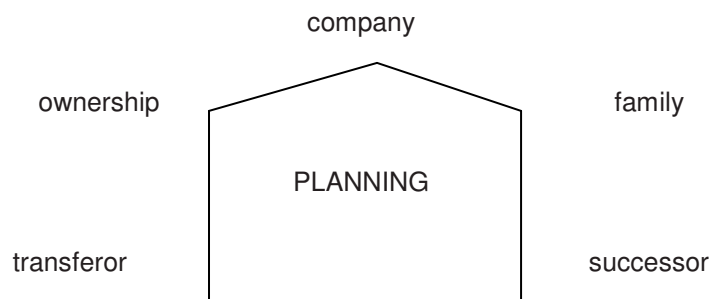
<sup>56</sup> <sup>56</sup>VAN DER EIJK, R.P., FLÖREN, R. and JANSEN, S.F. , *op.cit.*, 33

## Success factor 10 : The succession is methodically approached

Several studies have shown that a systematic approach is a major factor in implementing a successful succession<sup>58</sup>. Within the limits of this presentation we can only cover the broad outlines of this success factor. The planning will generally first relate to the transfer of the management and then of the ownership.

As figure 6 shows, in the succession framework planning will be necessary around five poles: the family business itself, the family, the transferor, the successor and the ownership

Figure 6



The following plans, among others, can be worked out around these five poles :

### The company

- a governance plan
- a strategic plan : in the succession framework, the transferor, the successor and the other stakeholders (for example, passive shareholders, bankers, etc.) have an interest in knowing what the strategy of the family business is.

### The family

- formulation of the owner's vision
- family governance :
  - family charter
  - family forum

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<sup>57</sup> See on this in detail for Belgian law : LIEVENS, J., De overdracht. Juridische en fiscale aspecten, in : LAMBRECHT, J. and BAUM, L. (2004) *Naar een familiedynastie. Gouden tips van en voor bedrijfsfamilies*, Tielt, Lannoo, 153 et seq.

<sup>58</sup> KETS DE VRIES, M. (1993) The dynamics of family controlled firms : the good news and the bad news, *Organization dynamics*, 21, 59 et seq.

#### The transferor

- formulation of his new role
- timing of the succession
- financial planning
- emergency plan

#### The (candidate) successor(s)

- study plan
- career plan
- training plan
- mentoring plan

#### The ownership

- legal planning
- tax planning
- shareholders' agreement
- setting up of control structures
- valuation
- liquidity planning

Not all families have to have all plans. What is truly necessary and useful will depend on the specifics of the particular case.

The website : [www.scorecardopvolging.be](http://www.scorecardopvolging.be)

What is the Succession Scorecard®?

The Succession Scorecard® strives to be the unique contact point concerning succession in family businesses in Flanders. In order to give family entrepreneurs the greatest possible access to this contact point, a web-based approach was adopted.

The success of a succession is determined by a number of factors. The scorecard brings these factors together so that the entrepreneur can see at a glance where he stands.

The Succession Scorecard® was designed by Jozef Lievens. The term "Succession Scorecard®" may only be used with express approval.

How does the Succession Scorecard® work ?

The website [www.scorecardopvolging.be](http://www.scorecardopvolging.be) is composed of three levels

- level 1 : the home page with an overview of the ten success factors.
- level 2 : a first, brief explanation of the various success factors.
- level 3 : experts go into greater detail about the success factors.

In addition, the website includes a "self-test", with which the family entrepreneur can check how he scores on the Succession Scorecard®.

What is the Succession Scorecard® based on ?

The Succession Scorecard® is based on national and international research about succession.

These studies are summarised in this publication.

How can you best use the scorecard ?

Succession is a complex process that is determined by many factors. The scorecard is an aid for seeing how you as an entrepreneur score on these success factors. The scorecard tries to give you as complete a picture as possible of the succession problematic. It might bring factors to your attention which you have not thought about until now. Given the complexity of succession, obviously the scorecard does not offer you a guarantee that your succession will succeed if you have a good score. You should rather look at the scorecard as a guideline which helps you think about the subject of succession.

## Jozef Lievens

Jozef Lievens has been a lawyer and member of the Kortrijk Bar since 1976. He is a partner in the Eubelius law firm, which concentrates on company law and has offices in Brussels, Kortrijk and Antwerp. As a lawyer, Jozef Lievens specialises in company law, primarily conflicts between shareholders, directors' liability and all aspects of family businesses (succession, governance, conflicts).

He teaches courses on "company transfer and governance of the family business" at the European University College Brussels (EHSAL). Jozef Lievens is also co-founder and managing director of the Institute for Family Business and of FBNet Belgium.

He has published five monographies on company law. In 2001 his book *Opvolging in het familiebedrijf. Succesvolle strategieën [Succession in the family business. Successful strategies]*. was published by Lannoo. Prof. Rik Donckels called this book "the bible on succession in the family business". His book *Governance in het familiebedrijf. Sleutel tot succes [Governance in the family business. Key to success]* (Lannoo, 2004) was nominated by the newspaper *De Tijd* as the best management book of the year.

Jozef Lievens holds a law degree (K.U. Leuven), earned an MBA at Nottingham Trent University and is an alumnus of the PIL courses in negotiation and conflict resolution given by Prof. Roger Fisher (Getting to Yes) at Harvard Law School. He is one of the few Europeans to hold a Certificate in Family Business Advising and a Certificate in Family Wealth Advising, both issued by the American Family Firm Institute (FFI). He is also a director of FFI.

Each month he publishes a column on family businesses in *De Tijd*. You can find more information about family businesses on his website: [www.familiebedrijf.be](http://www.familiebedrijf.be)