Seven steps to choosing a successor for the family business

Although nothing can guarantee that a family business will continue to thrive when successful leadership steps down, extra care can be taken when choosing a successor to give the family business the best possible footing going forward. Here are seven steps to consider:

1. Make no assumptions. Many business owners assume their son or daughter wants to run the company or that a particular child is right for the role. Such an assumption can cause great harm to the company, whether by forcing someone to fill a role for which they aren't suitable or passionate about, or finding out down the road that the "assumed" successor is not interested, costing valuable planning time and potentially requiring a new path and a rushed succession process.

2. Decide which family members are viable candidates, if any. External parties such as professional advisors or an advisory board can provide valuable input. While these outsiders still have a vested interest in your decision, they are more likely to be impartial, as they can remain independent and likely lack a bias. A board of directors or a paid advisor may also help an owner arrive at the difficult conclusion that the best choice may even be someone who is not in the family.

3. Look at skills and temperament. Once the candidates have been identified, holding private meetings with each to discuss the leadership role and their strategy can help the decision maker to get a feel for whether anyone being considered has the skills or temperament to run the business. This can also be a good point in the process to involve the professional advisors or an advisory board, as some of these conversations can be difficult to have, especially with beloved family members. Having an experienced third party to help facilitate these meetings can help ease tension and improve the decision making process.

4. If there are multiple candidates, give each a fair shot. This is no different from what happens in publicly held companies and large privately owned businesses. Allow each qualified candidate to apply for the greater position at the company and move up the management ladder.

5. Rotate the jobs each candidate performs, if possible. Let your potential future leaders gain experience in many areas of the business, gradually increasing their responsibilities and setting more rigorous goals. This will not only groom a better business person, but also potentially create a deeper management team. Their understanding of what happens in each role within the business allows them to be a stronger manager and leader.

6. Clearly communicate the decision. After a reasonable period of time, pick a successor. Meet with the chosen candidate to discuss a transition timeline, compensation and other important issues. It is also important to "sit down" with those not selected to explain the decision. Ideally, these individuals can stay on to provide the company with management depth. Some, however, may choose to leave. This can be a difficult, emotional time for family members.

7. Work with the successor on a well-communicated transition of power. Once a successor has been selected, he or she effectively becomes a business partner. At this point, power must be gradually shifted from one to the next. Don't underestimate the human element and how much time and effort will be required to make the succession work. It is an investment worth making.

For additional insight and guidance in navigating this challenging and complex planning opportunity, contact your Anchin Relationship partner or a member of Anchin Private Client at 212.840.3456 or info@anchin.com.

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