Family business – succeeding at succession

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Speakers

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At the end of this webcast, participants will be able to:

• Recognize the unique challenges of family business leadership transitions

• Describe how to get started with the development of a succession plan

• Identify the steps and actions family-owned businesses can take to prepare for leadership transitions
Contents

1. Introduction to Succession Planning
2. Elements of Succession Planning
3. Case Study: Estes Express Lines
4. Grant Thornton's Approach to Succession Planning
5. Wrap-up and Q&A
The importance of getting it right

"Succession is a complex process and it takes time."

"It's more than just addressing the business, tax and financing issues. It also means managing various and sometimes competing family dynamics."

"Only one out of 10 family businesses are handed down to a third generation"²

"Fewer than 10% of family business boards said their companies were effective at attracting, hiring, retaining or firing employees, or at leveraging diversity in the workforce."³

About 90% of all U.S. businesses are family-owned or controlled businesses while about 80% of global companies are

Yet, 30% of those companies transition to the second generation of leadership successfully¹

¹ HBR 2014, ² Family Business Institute, ³ HBR April, 2015
Succession planning is multifaceted

Aligning the key pillars is integral to a well-developed plan

- **Governance** – Board representation, managing the needs of family members
- **Ownership structure** – How will transfer be structured and funded; managing estate, gift and tax consequences
- **Leadership pipeline** – Identifying and grooming the next leader
- **Strategic goals** – Organic vs. inorganic growth
- **Culture** – Will today’s mission, vision and values continue to the next generation?
- **Communication and collaboration** – Understanding family dynamics
- **Talent** – Retaining key talent and clarifying roles, while identifying current and future needs
Five key considerations define the path in succession planning

• Alignment of interests among the family
• Transition to the 2\textsuperscript{nd} and future generations
• Interfamily conflict and disputes
• Balancing the financial elements within the business
• Inheritance and estate planning as part of the plan
Succeeding at succession takes a solid plan

Succession can be an emotional issue

- Start early
- Expect it to evolve
- Have a plan B
- Engage the Board
- Communicate with all constituents
- Taxes and funding

Establishing a solid, independent board with broad set of business, financial and other backgrounds will enhance the planning process
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### Succession options

<table>
<thead>
<tr>
<th>Ownership</th>
<th>Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal</td>
<td>Internal</td>
</tr>
<tr>
<td>Classical succession</td>
<td>Intra-family Succession</td>
</tr>
<tr>
<td>External</td>
<td>External</td>
</tr>
<tr>
<td>Not very relevant</td>
<td>Rare, normally time limited, e.g., PE Investment</td>
</tr>
<tr>
<td>Hybrid</td>
<td>Internal</td>
</tr>
<tr>
<td>Non-family CEO</td>
<td>e.g., MBI or MBO</td>
</tr>
<tr>
<td>Sale</td>
<td>External</td>
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</tbody>
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- We focus on classical succession during the talk
- Order of ownership and management succession can vary
- Ultimately family goals drive the process
Family succession inhibitors

- **Individual Level Factors**
  - Low ability of successor
  - Low motivation of successor
  - Excessive attachment of incumbent
  - Sudden death and illness
  - Personal issues (e.g., divorce, remarriage)

- **Relational Factors**
  - Conflict/Consensus sensitivity
  - Trust issues
  - Commitment issues

- **Context Factor**
  - Performance
  - Loss of customers

- **Financial Factors**
  - Tax burden
  - Financial constraints (e.g., to facilitate exit)
Process facilitators

Process level factors

✓ Clear role definition of both incumbent and successor
✓ Clear communication to family and non-family stakeholders
✓ Proper training/ability profile of successor
✓ Having objective selection criteria
✓ Addressing emotions
Essential points

• Ideally, incumbent should initiate succession process
• Family members perceptions about the succession process differ often; Communication is very important
• The governance of the family firm needs to anticipate the future complexity of the family
• Willingness to let go needs to meet with committed competence
• Incumbent and successor influence each other’s perceptions and satisfaction
• 30% plan for succession, 30% survive into the next generation.
• One can never be too prepared
Case study: Estes Express Lines

The nation’s largest privately owned freight transportation carrier, Estes is a go-to provider of end-to-end transportation and custom logistics services. Backed by nearly 90 years of industry expertise and financial stability, Estes delivers a better customer experience through flexibility and improved technology to best meet rapidly changing freight transportation needs.

The Richmond, VA-based fourth-generation company operates one of the newest fleets in the industry, and understands that its nationwide team of over 18,000 employees is one of its strongest assets.
Estes Express Lines

History and background of the Company

• Business was started in 1931 by W.W. Estes
• Key milestones of business success
• First succession in company's history
• Future successions
• How the successions differed each time
Success factors for Estes

Keys attributes for success

- Team of experienced external legal and financial advisors
- Voting control held by one person
- Well-defined process for communication and transparency
- Policy and process for determining which family members will work at the company
- Respect for minority family members

Obstacles overcome

- Navigating interconnectedness of family and business
- Achieving balance between day-to-day business issues and family perspectives
- Ensuring non-family employees can operate effectively within business
Grant Thornton’s six step approach to succession planning

- Review and assessment of current succession plan and goals/vision of family for the business
- Establish “Rules of Engagement” for the planning process
- Review current and future talent needs for success
- Create succession planning alternatives and possible outcomes
- Develop a business plan and owner estate plan that aligns with succession plan
- Design and implement the transition plan, and update and communicate annually
What exists currently and what are the future vision and goals?

- Review current succession plan
- Develop unified business vision
- Determine importance of continued family involvement
- Address non-family key senior management
- Identify family and personal retirement goals
- Understand financial needs of family owners
- Clarify goals of next generation management
- Engage professional advisor team
A successful planning process requires clear “Rules of Engagement”

- Establish family governance processes
- Build guidelines for dispute resolution
- Develop blueprint of plan
- Socialize plan with family/others
Understanding both business and family needs is critical

- Identify possible successors
- Address roles of family and non-family members
- Identify necessary support from family
- Develop process to "groom" future leaders
Create, review, and socialize the proposed succession plan

- Summarize the alternatives and possible outcomes
- Review alternatives with advisors
- Over-socialize within the family
- Ensure alignment with strategic plan
Aligning the business and owner estate plans with the succession plan is imperative

- Review income and estate tax implications
- Update family estate planning
- Develop possible liquidity options
Getting from here to there, a transition plan…

• Considers options for ownership
• Incorporates leadership coaching and development plans
• Includes an implementation timeline and milestones
• Is reviewed, updated and communicated annually
Succession planning documentation checklist:

- Identifying the future leaders and development plan for leadership skills
- Ensuring that the estate planning documents match the intent of the owner(s)
- Create and/or review shareholder agreements
- Establish action steps coaching, mentoring and dealing with conflict
- Develop policies to meet the needs of next generation leadership
- Develop steps for conflict and expectations within the family business
- Identifying key ways for senior leadership to support the succession plan
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Private company insights

3 components of a superior growth strategy
Sustained growth depends on a strategy that defines and directs...

Succeeding at succession takes a solid plan
Family businesses account for roughly half of the gross domestic...

Top 2018 private companies: Fighting the status quo
Top private companies included in the inaugural Grant Thornton...

Built to serve private companies
Grant Thornton is laser focused on providing private company...

The private advantage: An edge in tech innovation
Private companies have unique characteristics powering their...
Any final questions?
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