

Family Succession Planning

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Family run corporations or professionally run corporations?

Situation: The business had started out as a small retail store in the 19th century and expanded over the decades. By 2000, it had almost two dozen subsidiaries ranging from a fertilizer company to a retail chain. Over its history, the business leadership was transferred from the father to the eldest son. Everyone else in the family was also heavily involved in the business. They considered this not only a family tradition, but a birthright.

The current chairman had a daughter and a son—the eldest being the daughter. He initially assumed his children would succeed him as chairman and vice chairman and the children assumed the same. They went to leading business schools abroad and worked in unrelated businesses for experience. We were called in when the chairman wanted to retire and hand over the family business to his children. Adapting to the current situation and his observations of their work experience, he now wanted to give his chairmanship to his daughter and make his son the CEO of one of the family companies.

Actions: In this case, our expertise in interviewing and understanding each family member's goals and motivations was critical. An in-depth analysis of the situation was done through one-to-one interviews and group discussions with the family members, board members and company executives. Some of the meaningful information we obtained was not previously revealed to the others. Some of the inputs included:

The chairman became CEO in his late teens when his father passed away. He never finished college and was CEO / chairman all his life. What he wanted most for his children was for them to enjoy the wealth and status of the family but not the burden of running the business. He wanted his children to have a choice that he felt he did not have. He was afraid to ask his children about their choices as he feared that they might interpret it as him not trusting them enough. The daughter, whom everyone considered to be the future CEO / chairman, did in fact, not want to inherit the position. She wanted her own achievements in doing something she could be passionate about. The son, being the only son, assumed he would be a CEO / chairman, following the family tradition and was already acting as if he had the position. Unfortunately, his father, sister and the board members felt that he was not qualified.

Results: After much internal discussion facilitated by our team, a consensus was reached that it was best for family members to remain as board members but not necessarily as corporate executives.

- We strengthened the board with experienced outsiders so that family interests could be better protected.
- We introduced family employment guidelines just in case anyone in the family, including future generations, would like to get involved in the management.
- We established a professional management team in conformance with the family values and tradition.

The chairman passed away a few years after our initial engagement. We have maintained a continuous relationship with this client and are very gratified to see a very successful transition in the business and family wealth.

