THE QUICK START GUIDE SERIES*

Sticky Baton Syndrome

(Ask Prince Charles)

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*Position papers and primers for your important discussions and major decisions.

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Sticky Baton Syndrome (Ask Prince Charles)

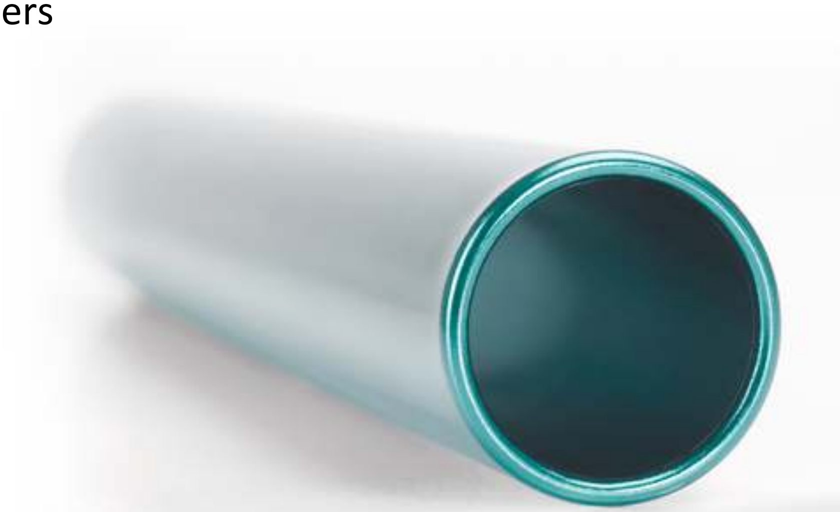
Transitioning a family business from one generation to the next is rarely a simple exercise, and just the thought of beginning the process is enough to make many families fearful of trying.

There are usually a number of stakeholders involved, and their varying points of view, strengths and weaknesses, dreams and goals, life situations and priorities are often quite difficult to reconcile.

If those issues aren't enough, these families also frequently have to deal with another key problem: "Sticky Baton Syndrome". In a relay race, the runner who is completing his lap around the track is supposed to hand the baton off to his teammate who then runs the next lap.

Imagine the complications that would arise of someone had dipped the baton in Krazy Glue just before the race. This almost sounds like a scene from an episode of a bad sitcom, just imagine the hilarity that would ensue.

Unfortunately, for members of a business family, it really is nothing to laugh about. Just ask Prince Charles, the poster child for Sticky Baton Syndrome.



This is not some new phenomenon, but it seems to be more prevalent now than it was in generations past. With couples having children later, and ever increasing life expectancies, this subject is not about to disappear either.

There is a huge potential downside of course, because after people work for decades building something for their families, things can fall apart quite quickly if they mess up their exit strategy.

FIRE YOUR DAD?

George Hedley of Hard Hat Presentations offers some great perspectives in a piece on his website entitled "Fire your Dad?"

As you might expect from the title, and from the fact that Hedley owns a construction company in addition to being a speaker, he does not pull any punches, and speaks in a very direct way to some of the sensitive questions that many people prefer to avoid.

He talks about the fact that very often the next generation are lured into the family business with unspoken promises that Dad never really communicated or offered.

He also clearly puts the onus on the potential successors to demonstrably prove that they are both ready to and worthy of becoming owners of the business. Once they have done their own work, they will then be in a position to deal from strength with Dad.

Once they have sufficient confidence, they will be in a position to bring the matter to a head, and maybe even make the hard choice of leaving to show the parents how serious they are.

In effect, he suggests that "Firing your Dad" can be done by leaving the business.

Tough love, perhaps, but worth a read:
https://hardhatpresentations.com/FireYourDad.htm

SUCCESSION IS A PROCESS, NOT AN EVENT

Family business advisors generally suggest a minimum of five Years to successfully transition a family business from one generation to the next; it really is best done over a long time period of time.

In fact, the only time a transition is essentially an event is when there is an unexpected death and the next generation is forced to take over on very short notice (or no notice at all). If it can be avoided, nobody would recommend a simple succession event.

There are essentially two parties to a succession, and it is only natural for each to look at things from their point of view. But it is worth thinking about how the other party may be looking at it, no?

In most cases, the senior generation gets accused of delaying their exit, and the rising generation will complain that they are not getting a fair shot at showing their mettle.

The senior generation will suggest that their children are still not ready, even though they are of adult age. (Some advisors like to remind the parents that these people are no longer "children", but are now "former children." I like to call them "offspring".)

G1 to G2: The hardest transition? Or the Easiest?

Many people believe that the most difficult inter-generational transition a family will ever face is the first one. Something about the Founder of the business and the entrepreneurial DNA that makes it very tough to ever let go of the Baby that may actually be his "favourite child".

In addition, there is no model to follow, no "well, this is how MY Dad did it" to emulate or even improve upon, since this is uncharted territory.

But is perusing the 2014 PwC study, I noted that according to some people, it is the opposite, and in some cases, the first transition is the EASIEST that the family will ever have to undertake. Really?

Well, the argument is that when you only have one parent and their own children, and likely a more modest amount of wealth at stake, it is certainly less complex. When you get to a G2-G3 transition, or G3-G4, the number of people, of family branches, of in-laws, etc. expands geometrically.

In cases where there has been a great deal of business success, it was also likely due to more than one strong-willed person, thus making the potential successors more numerous.

For me this is just another case of "it depends" that exist in the field of family business, but leave those debates to the academics. Every business person that I have ever met really cares about their own family, and not what is going on with all the other business families in the world.

http://www.pwc.com/gx/en/pwc-family-business-survey/index.jhtml

The finger pointing can go on back and forth for years, but here are two facts that are nearly indisputable:

- The senior generation will very likely die before the rising generation; and,
- The burden of coming up with a solution to this dilemma will need to come from the rising generation.

Here I could add a third point, but it may seem too self-serving. But it is this: these two parties will likely find a successful resolution more easily with the help of an objective outside person, who can help each side look at things from the other's point of view and help bridge the communication gap.

Family Businesses : Insular?

Unfortunately many family businesses are pretty insular, and letting “outsiders” into their inner family circle is not something they usually relish doing. This same attitude is also part of the sticky baton issue; they do not often make room for the next generation either.

When the successors are excluded from important decision-making, they will usually end up being unprepared when the time comes to finally take over.

This is unfortunate, because the rising generation will almost always have fresh ideas to bring to the table, if they are “allowed” to bring them up. Younger people are often more innovative and familiar with technology, which can become quite necessary as a business adapts to marketplace changes.

They can also bring a more professional element to a company, and help it move into the future, even if they are did not inherit their parent’s entrepreneurial gene.

A gradual transition is what most families would like to accomplish, as it gives the successors a chance to grow into the role, while giving the senior generation a chance to observe and correct their offspring.

It is better to let them make small mistakes, and see if they learn from them. Observing how people respond to challenges can be very enlightening.

Family Business Review ; December 2011
Trying to make sense of the subject

As a member of the Family Firm Institute (FFI), I often check out the content of their monthly scholarly journal, called Family Business Review.

When undertaking this subject, I come upon one article from December 2011 that I hoped would shed some light on the Sticky Baton Syndrome. The title of the piece was: Retiring from the Family Business: The role of Goal Adjustment Capacities.

Well, I understood the first half of that and so I thought it would be worth the read, and that the rest of it would become clear as I read the research paper.

The researchers studied a couple of hundred Canadian family companies to try to find out why some people can set a retirement date and stick with it, while others waffle and change their minds.

They analyzed things like how close they were to the date they had set, what concrete steps they had taken, what their expectations were post-retirement, along with their "disengagement" and "reengagement" capacities (ability to let go, and ability to get excited about something new".

They also took a look at the trust level that the incumbents had in their potential successors.

I ain't got no PhD so maybe I am misinterpreting this, but to me there are two take-always;

Post-Hoc Analyses: (page 298) *"among incumbents who do not trust their successors, poor role reengagement capacities were associated with setting a later retirement date. However, to the extent that incumbents reported increased levels of trust in their successors, this effect became reversed, and poor goal reengagement capacities became increasingly associated with an earlier retirement date."*

Trust your successor, OK to leave early, don't trust them, not ready to leave yet.
The second quote I liked was this, from page 300: *"It therefore seems that retirement planning may be more associated with personal and business characteristics than with age"*.

So, age matters less than your personal preferences and business circumstances.
Entrepreneurs don't look at 65 as an age to retire like factory workers or public servants. Many will hang on because they just want to; but if they have nobody that they trust to take over, they will likely hang around even longer.

http://fbr.sagepub.com/content/24/4/292.abstract

Ready To Take Over, Ready To Let Go

In a perfect scenario, the successors will be ready to take over at the same time that the seniors are ready to let go.

But what happens when the parents refuse to even discuss their eventual departure? Let's face it, some people are what we would call "control freaks". Thankfully, they are not the majority. Unfortunately, a disproportionate number of them tend to start their own businesses, and many of them bring in their family members (because they are easier to control?)

Retirement Doesn't Work

Wayne Rivers, of the Family Business Institute, is someone whose writings I always enjoy, so it was no surprise that my research on this topic uncovered a piece from his site, entitled "Retirement Doesn't Work".

In it, he mentions some key ideas, including:

- *Retirement becomes associated with death*
- *The average retired person becomes bored*
- *You need a clear roadmap*
- *You need to refocus*
- *You are NOT what you DO*

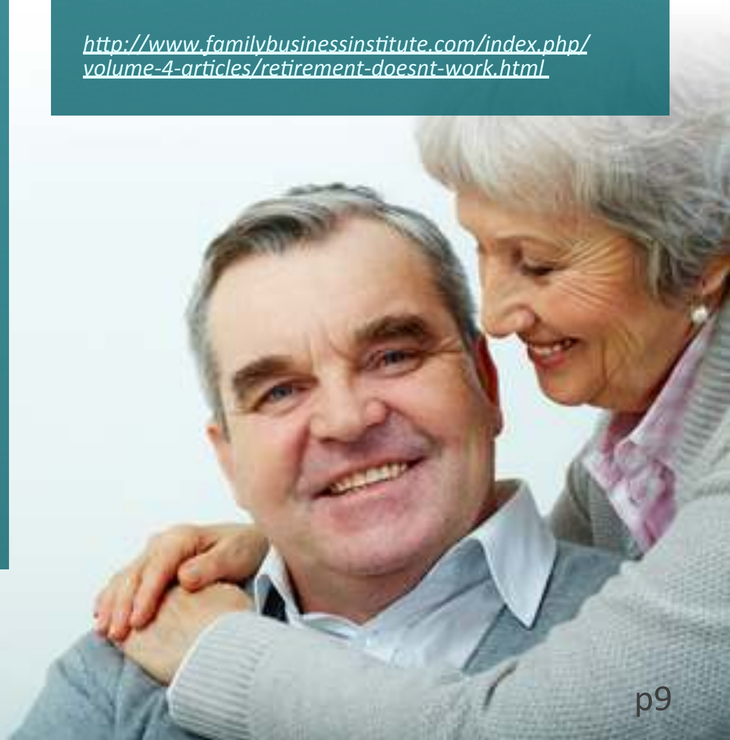
You need to build a bridge to your new life On top of this, he suggest a simple yet powerful exercise, in which you take a piece of paper and make three columns, In the left-hand column, you list all the key subjects or questions that are important to you in your life.

These include: Where to live, how to stay healthy, where else can you contribute, do you enjoy travel, hobbies and skills, causes, education, other businesses, financial requirements, etc.

Then, in the second column, put "Current" at the top and fill in your situation as it stands now. In the right-hand column, write in "Desired", and get to work on what that should look like.

Once you have figured out where you are trying to go, it is MUCH easier to get there.

http://www.familybusinessinstitute.com/index.php/volume-4-articles/retirement-doesnt-work.html



When discussion about the issue of their eventual departure is not even a possibility, sometimes some difficult decisions will need to be made, and we will get to those a bit later.

Thankfully, the stakeholders OUTSIDE the company can sometimes bring the issue into focus better than the offspring.

Whether we are talking about the company's bank, suppliers, customers, or professional advisors, when the head of the company reaches a certain age, these people WILL ask questions about who will be running things in the future.

These stakeholders will certainly be in favour of a coherent succession plan being in place and visibly followed. A gradual handing over of the reins is much more likely to inspire confidence inside and outside the company.

Skills, Credibility, Trust

It is easy to understand that the successors need to acquire and build the necessary skills to run the company, but skills are not the only important element.

Credibility is also paramount, internally, with employees and other family members, but also externally, with the other stakeholders mentioned above.

When both the skills and credibility are present, trust will usually follow, and trust will also grow as the other two elements do.

Unfortunately, what sometimes happens is that the rising generation will postpone their lives and personal dreams based on the unspoken, implied promise of "some day this will all be yours".

There must be some communication on the details, because if they are just hinted at, suggested, and implied, well, love can only take you so far.

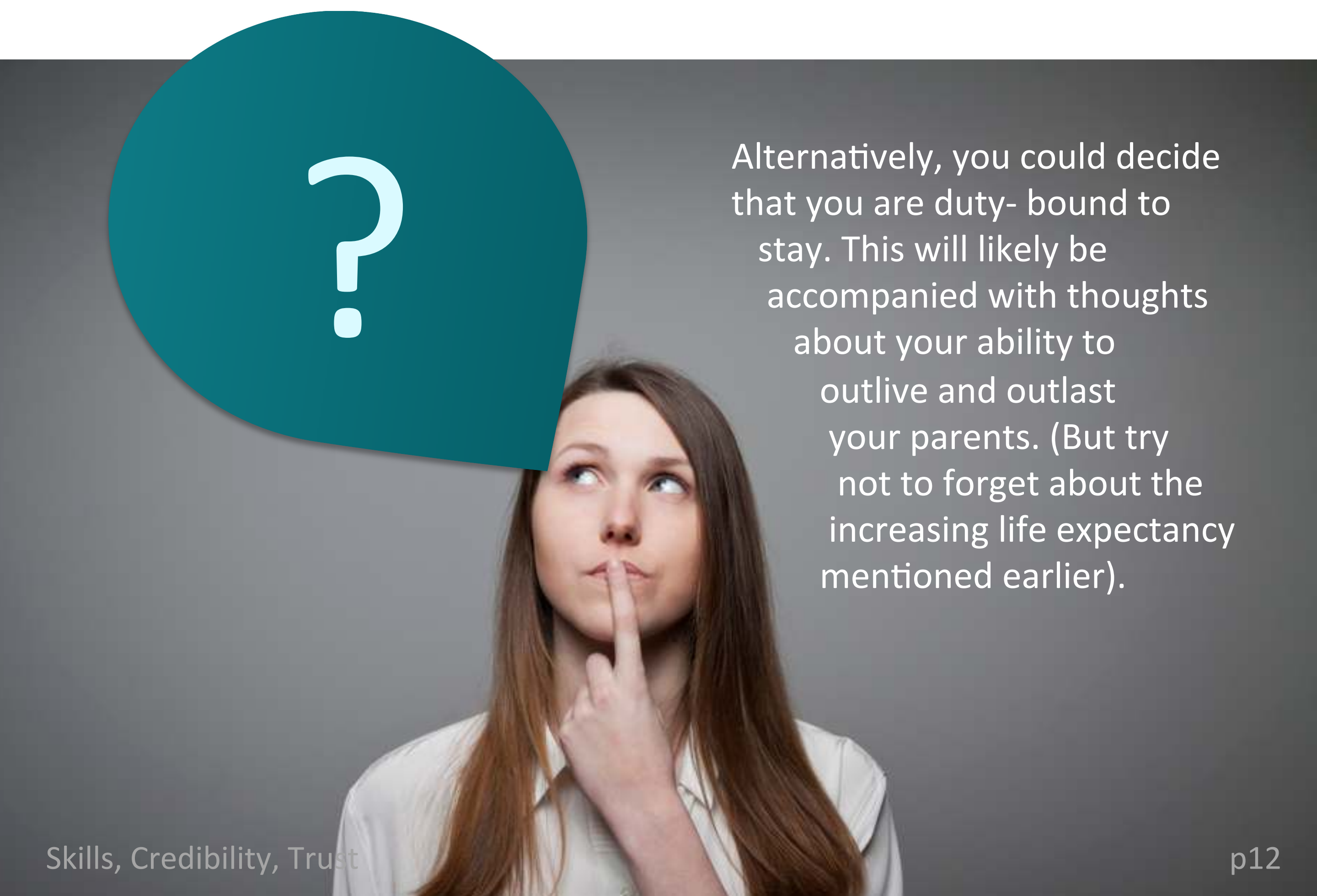
Things need to be talked about, agreed to, confirmed, written down, and followed. If necessary, the expected successors will have to look in the mirror and ask themselves some hard questions.

For example, **"what do I get by staying here that I cannot get anywhere else?"** And, **"is the answer enough to make me stay?"** I am talking about a "pros and cons" list, a real cost/benefit analysis.

You may have to seriously look at your BATNA *(Best Alternative to a Negotiated Agreement – from Fisher and Ury's classic, Getting to Yes.)*

Maybe there is no "negotiated agreement" possible, if the other party refuses to engage. So what then, just leave? Maybe, let's look at how this could go.

- ❑ Yes, you leave and never return
- ❑ Yes, you leave, and come back, X years later
- ❑ You prepare to leave, but get talked into staying



Alternatively, you could decide that you are duty- bound to stay. This will likely be accompanied with thoughts about your ability to outlive and outlast your parents. (But try not to forget about the increasing life expectancy mentioned earlier).

Retired, But Refuse To Let Go

Sometimes the parent will retire, but only in theory, not in practice. They will say that they are retired, but continue to run things their way, never really ceding any control or decision-making power.

That certainly makes things more difficult for the successors, which may force the type of thinking we just looked at.

Can a Bucket List help?

Resources these days come in all forms, and in researching this subject I came across a few audio podcasts that shed some light on the subject. There is a link below to the entire 9-minute interview of Rick McDonald of U.S. Advisory Group, a Massachusetts-based private wealth advisory firm.

McDonald mentions his 3 top tips in the interview:

1. Set a Date   2. Retire on YOUR terms   3. Make a Bucket List

All of his ideas and points are worth listening to, but I want to concentrate on the Bucket List.

For those who have trouble relinquishing their grip on the baton because they don't know what else to do, the bucket list can be one of the biggest motivators to let go. The trick is in getting them to understand and believe that, so that they can allow themselves the time to THINK about their Bucket List, and what things they have really always wanted to do.

They have likely spent the vast majority of their waking hours over the past several decades concentrating on their business, never even allowing themselves to dream about other challenges.

Bucket list conversations are usually best when started casually, in a non-business atmosphere. They also should never be rushed; it may take 3 or 4 attempts before the person feels comfortable even engaging in the subject of "what else" they may want to do "when" they have the time.

If you feel indispensible at work, you may never allow yourself these "frivolous" thoughts. But if you are trying to help someone let go, it makes sense to work on showing them that they are NOT indispensible, AND that there are more fun things to do in one's platinum years.

http://www.usadvisory.com/blog/retirement-family-business-owners/

When someone has been in charge for so long, especially if they were the founder of the business, and therefore the company feels like their "baby" (and perhaps even their favourite child!) it is understandable they may have difficulty relinquishing the reins.

In a perfect world, they would transition from "over-influencing" everything, to simply "influencing", and then only occasionally having slight influence. Even if the time this takes is measured in years or even decades, it is the direction that counts.

The subject matter here gets right into the deep psychological and emotional elements of the person's life and feelings of self-worth. Not everyone knows how to step back, and even after they step back, not everyone is good at letting go.

Conversations need to be had about how the transition is going to happen. The talking should lead to some basic agreements, which become the basis for a plan. The plan should be documented, and then the document should be followed, and reviewed and updated or revised as needed.

A properly funded retirement plan is key

When you think about why some batons are so sticky, there is never just one reason. In fact many people will never even realize or admit to what is holding them back.

It is not like finding the ONE key issue, it is solving for ALL issues, and making sure all are addressed, since any one of them that is not present can easily derail the entire process.

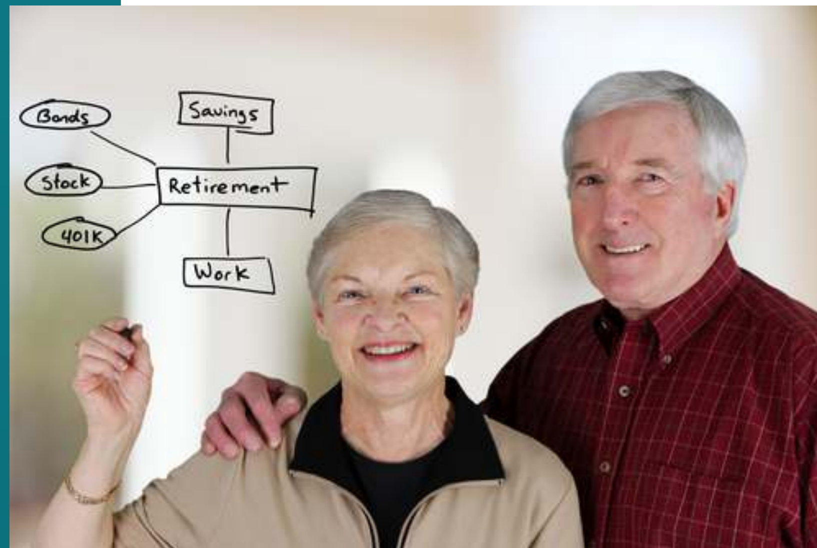
One such issue is the financial aspect of the retiring person's retirement plan. David Bentall of Vancouver-based Next Step Advisors says: "Daughters and sons of family business owners, eager to take over management and control of a business, may not realize why older generations are reluctant to step aside. Too often the elephant in the room is ignored".

The elephant, he suggests, is having enough money to live comfortably after leaving the business.

If the rising generation expects the older generation to let go the baton, "then the successors ought to develop a plan to provide financially for their elders".

Ideally investments will be made to provide these retirement funds OUTSIDE the business, to minimize the risk remaining in the hands of the successors.

Quotes above taken from:
http://www.theglobeandmail.com/report-on-business/small-business/sb-managing/succession-planning/helping-family-business-owners-transition-into-retirement/article22887232/



Management, Leadership, Ownership

It can seem complicated when you think about everything that needs to be transitioned, but in some ways it makes it easier. Let me explain.

Earlier we looked at a succession event, which resulted from a death. In one fell swoop, the management, leadership, and ownership could all potentially be transferred. That is one big bite to swallow.

But if we have a few years ahead of us to make a well-planned transition, we can tackle each of them, one-by-one. It ends up being a much smoother process. Here is how it *might* look:

Year 1:

Dad steps back from the day-to-day running of the business. Let's say he stops working IN his business, and instead concentrates on working ON his business.

This could involve coming in to work on fewer days each week, during which he hopefully also works on outside interests.

Year 3:

Dad sees how things are continuing to run smoothly despite his absence, so he now decides to relinquish the leadership of the company, handing over decision-making powers to the rising generation. He decides to drop the CEO part of his title, and simply remain chairman.

Year 5:

Things are running well and he is enjoying his new outside pursuits. A plan has been put in place whereby the next generation is in the process of purchasing his shares of the business.

The three areas of management, leadership, and ownership actually lend themselves to a phased approach, which is better for both generations.

Re-Focus on a New Roadmap

One important thing to realize is that **what we do** does not need to define **who we are**. It can be difficult for some people to imagine themselves as no longer being the guy who runs and owns "A.B. Jones Inc." in and around town, where the person's identity is so tied to their business.

But unless you plan on being the A.B. Jones who worked until he died in his office, then there comes a day when you need to plan to build that bridge to a new phase of your life.

Some people say that "Retirement doesn't work", in the same way that others say, "Diets don't work", and I think both are correct.

The diet naysayers suggest that you need to change the way you eat in a way that you can live with for the long term. Well, if you think retirement is just not showing up at work next Monday without having thought about what you will be doing instead, don't be surprised if that type of "retirement" doesn't turn out so well.

Retirement should not be thought of in the same way as death, and retirement does not have to equate to boredom (or being bored to death!)

There are plenty of ways to remain active, productive, useful, and challenged that are not inside your business. If you are fortunate enough to be able to live on the assets that you have accumulated outside the company, what are you waiting for?

The phasing out of your involvement in the business sometimes sounds like "semi-retirement" and that is cool IF that is a word that resonates with you. If it doesn't, then call it whatever you want, but don't avoid the topic.

Your role needs to evolve over time, and the company and family stakeholders need to understand it. There are many ways to remain a resource for everyone, while continuing to make a constructive contribution.

Make a Career out of Retirement

Leon Danco (1923-2013) was one of the founding fathers in the field of family business consulting, so it was no surprise to me that my research into Sticky Baton Syndrome uncovered a piece in which he was prominently featured. The surprising part was reading the interview that dates back almost 25 years (Dec.'90) and seeing how ahead of the game his thoughts were.

He spoke of "Making a Career out of Retirement" and encouraged aging founders to create a family foundation as a means of finding new ways to keep themselves challenged and to keep their legacy alive.

In 2015, many people call themselves "philanthropy consultants" and it sounds so new and avant-garde, but Danco had a two-decade head-start on the thinking.

Danco's initial comments in the piece mention that founders usually shy away from discussing passing the baton because they are "frightened to death of it". But he suggests they "develop a sense of stewardship and a contributory role" or else, he says, "they can destroy on the way down what they built on the way up".

A foundation also helps solve an issue that most people would love to have: "I have had 20 people in the last 12 months tell me 'the reason I don't sell my business is that I don't know what to do with all the money'".

Later he offers some advice to the rising generation: "I give them a little button that reads, "Solve Dad's Problem First". I urge them to stop worrying about their own careers and start worrying about his, because he has only a little time left." That reply ends with three words that are key: "Above all, communicate".

http://www.lgassoc.com/make-a-career-of-retirement/

For more about Danco, please see:
http://www.forbes.com/sites/aileron/2013/02/13/a-tribute-to-a-family-business-legend-dr-leon-danco/

Set the DATE Already

Most advisors will strongly suggest that you set a date, or at least a year, where the transition will be completed. Some worry that if that date is too far in the future, the rising generation may give up hope.

My preferred method is to start with a far-off date, in order to get the senior generation to admit that SOMEDAY is an actual date on a calendar, and not just a vague promise. It is important to get engagement on this subject, and allowing them to set a distant date can help here.

Once this date has been agreed to, we can work with the rising generation to do everything in their power to get Dad to move the date closer.

It could be a 10-year or even a 20-year plan, but there must be a plan. Sometimes you can get the discussion going by bringing up the desire to create an "emergency plan", in case of sudden medical issues, which then gives rise to writing up the longer term plan later.

Don’t ask your parents to retire

Rock LaManna of LaManna Alliance writes some great stuff on his blog, and since I actually quoted him in my book, I figured this piece was very much worth reading. Then I noticed that it was actually an interview with Paul Cronin of the Strategic Transition Planning Institute, and it was a no brainer, as Paul is also someone whose work I respect.

Cronin notes that one of the issues parents face is “the kids are adults, but the parents don’t think of the kids AS adults”. Others in the field like to insist that the senior generation stop calling their offspring “children” but rather “former children”.

As to the lack of willingness to even discuss the issue of letting go, LaManna asked Cronin how to “inspire planning for a strategic transition”.

Cronin suggested a 4 Step Plan:

- Ask the Right Questions
- Hire a lawyer now, so you don’t need one later
- Keep Pushing for a Vision of the Future
- Consider How to Best Approach your Parents
  You can read the whole piece at the link below, but here is my favourite part:

“You may want to confront them with your own personal fears, such as: ‘Mom and Dad, I’m really worried that if we don’t plan for the future, that in the end I will be left with a difficult mess to clean up. I’d rather not remember you for the pain that will result from the mess, and instead all the joy and love you gave me throughout your life’”.

Cronin adds , “In my situation, we hired a family business consultant to help facilitate some of these difficult conversations. I can’t emphasize enough how beneficial that was.” Amen to that.

http://www.rocklamanna.com/blog-Rock-LaManna/bid/101890/Don-t-Ask-Your-Parents-When-They-Will-Retire-from-the-Family-Business

The ideal situation is where a far off date is set, and then the rising generation mobilizes and creates an opportunity for Dad to “under-promise and over-deliver” on his exit plan.

It really is up to the younger ones to show that they truly are “former children” who are now ready to assume the roles that their parents prepared them so well for.

It may not be easy, but it can be done, one conversation at a time. As Arthur Ashe said, “Start where you are. Use what you’ve got. Do what you can.”

About Me

I was born into a family business, and as the only son of an immigrant entrepreneur, it became clear very early on, that I was expected to follow in Dad's footsteps. So every summer of my teens and the first three years of my work life after university were spent learning everything I could about the business.

I returned again after getting my MBA, more ready than ever for the challenges that awaited me. But then, unexpectedly, within six months, we sold the business to a competitor, and went from 250 people to only four. And two of us went by the name Steve Legler.

Since I was Junior, Dad called the shots and started spending most of his time on his new venture, a small farm, leaving me to manage the remaining family assets in our holding companies: real estate, investments, and intellectual property.

It was not a bad job to have, as I learned a lot about business from my Dad, furthered my formal education along the way, and had what my sisters surely considered one of the cushiest jobs on the planet.
My Dad understood a little about the importance of keeping the entire family abreast of the business, and for that reason he once called a family meeting. Unfortunately, he never called another one over the subsequent 20 years, and then only did so after his cancer diagnosis.

Along the way, I also married into a business family, and I have seen some of the communications challenges that they have faced over the years.

I now realize more than ever how important good communication is for families who want their legacy to continue, as it is transferred to future generations.

My father was responsible for building the family wealth, so nobody ever felt right asking him about anything, but my sisters would never cut me the same slack, which is why we have regular family meetings, along with my mother, and an independent outside trusted advisor, who we all know and respect.

In 2013 I enrolled in the Family Enterprise Advisor program, which is geared mostly to wealth managers, accountants, and insurance folks who deal with business families on a regular basis. But I immediately felt more of an affinity with those at the front of the room, who were teaching the classes; people who work as family business facilitators, trusted advisors, coaches, and mediators.

As the father of a couple of teenagers, I also appreciate the different roles we play along the way in life, and I feel as though I have found my calling, as a family business specialist.

There are plenty of people advising family businesses about their business issues, but the area that causes so much concern, in so many family businesses is not the business, but the family. I know that I have some very unique qualifications to help them take control of those important issues.

FOR MORE INFORMATION

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Reference Links:

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