



# The role of the independent director in family business succession planning

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Succession in a family business is complicated. Every situation has its own variables and nuances; therefore, it is prudent to invest the time to understand as many perspectives as possible before designing a solution. Family stewards need fresh eyes to carefully consider all the implications of a transition and independent directors can be an invaluable source of objectivity and support.

The very word 'succession' indicates that a new leader is replacing one who is stepping away and both parties are normally fraught with anxiety about the future. Naturally, questions arise from those responsible for making the choice: Will we pick the right family member? Will they be an effective leader? Will they be able to sustain the income our shareholders depend upon? Will our choice inspire friction among family members? Current leaders may also wonder to themselves what on earth will I do when I step away as this business has defined me and provided for my family all these years?

Great uncertainty comes embedded in the word succession, so it is helpful to step back and consider both the enterprise as a whole and the families affected. The business and family exist upon a continuum and sustainability needs to be considered carefully for each. It is therefore helpful to instead reframe and refer to the process as continuity planning rather than succession planning.

Continuity always has embedded risk; however, those risks can be mitigated with careful thought and effective processes. The only certainty in this endeavor is that the owners want a sustainable business that has the ability to thrive with the lowest degree of family tension. This belief applies whether the current family owners want to continue to manage it, oversee it, or sell it. In each of those scenarios, maximizing the value already built into the business and expected in the future is paramount as is the desire to be fair to family members. It is not an easy set of tensions to balance.

If the intent is to continue to manage or oversee the business, then the next question is about stewardship. Who has the right mix of skills and abilities to drive the business forward and provide a sustainable return on the owners' investment? This is a question of talent and ambition as neither on its own is sufficient. Assessing whether or not this combination resides in the next generation of family members becomes a vital concern at the governance level and is something the independent directors can be very helpful in assessing. Developing an effective process will help manage everyone's expectations.

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## HELPFUL INDEPENDENT VOICES IN THE FAMILY ECOSYSTEM

One of the best things an evolving family enterprise can do is to introduce skilled independent voices into their governance equation. Prime among these attributes are communication skills, the ability to develop effective processes, and when the time comes, applying acumen and judgement in the assessment of talent.

What makes the independent voice so challenging is the effective use of constructive candour in sensitive situations. This is true in assessing all strategic choices and human capital decisions are no different. All strategic decisions have impact at scale. People decisions have the same reverberation and a poor choice can be disastrous to the business, as well as to the affected families - be they owners or not. Yet, poor choices in family enterprises can also cause long and sometimes irreparable fissures in the family dynamic, which is why it is crucial to get it right.

In all major decisions a good process is your ally. An independent director can bring in much needed objectivity and an ability to constructively use candour to improve the quality of those decisions. An independent director can also help the current stewards develop an assessment process, negotiate the time horizon required to allow the family's human capital to develop and be tested, and ultimately apply the judgement required to assess whether a family successor has the most potential to lead, or whether a professional executive outside of the family would be a better choice. If neither option is viable, selling the business to a group that can effectively take the business forward may be considered. Of course, there are always opportunities to creatively balance the tensions and formulate hybrids of these or develop new options entirely.

## A QUESTION OF TIME AND NARRATIVE

Regardless of the scope of the process and the situational variables, negotiating an appropriate time horizon with the current incumbent is imperative. An independent director has the ability to relate to the current steward in a way that family members or other insiders may not. Knowing that so much of the current steward's identity is tied up in their leadership role and how important family and their business is in their lives, these family leaders can sometimes lose perspective and avoid the process altogether by denying their own mortality or by avoiding the leap of faith required to hand over day-to-day control to another. We know that many entrepreneurs think of their business as another child because they have spent so much time caring for it and helping it grow. Therefore, tact, timing and narrative become important in broaching the subject.

Starting with the narrative, the independent director has an opportunity to help the incumbent family leader understand that he/she appreciates how important both their family and their business is to them. With this genuine concern, the concept of continuity planning can be introduced as a way of safeguarding the two things they most care about, while also taking the time to help the current leader understand that a shift in stewardship means a shift in role – which may mean staying on the board, but leaving operations to another, or stepping away entirely if appropriate. However, it cannot be assumed that the logic of continuity planning is self-evident and will be acted on immediately. Persistence may be required. Their identity may be deeply embedded in their role and they may have no idea what to do with themselves after their tenure as a business leader. Focus should be placed on both the sustainability of the family as well as the business.

The time horizon for continuity planning is necessarily long. This is not a “we'll solve it this quarter” kind of topic. The last thing anyone wants is for this decision to be thrust upon them in the event of an unexpected health crisis or worse, an untimely death where intentions were not clear. Too many families are put in this position because of the delusions of the current steward who may, with good intentions, put off the discussion by citing all sorts of reasons such as: “they are not ready” “I am still healthy” “the timing is not right for the business” or in some cases “I am not ready to go.” However, the timing will rarely be perfect and decisions on how to move forward need to be taken. As such, the independent director can reduce the anxiety born from uncertainty by helping the current incumbent visualize how they will invest their time after

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the transition. The independent director must embrace the iterative nature of the process, and therefore, has the opportunity to introduce the idea of continuity planning early and often as a matter of risk mitigation for the business, not simple convenience for the incumbent.

To mitigate risk and ensure a low friction continuity process the time horizon needs to be long enough to define the skills needed in the future, develop candidates and assess who has the right skills mix while being able to espouse the leadership values the family holds dear. How long? It varies by scenario, but needless to say a process needs to be developed to assess who has the appropriate skills now, or who can develop them sufficiently over a set period of time.

So, once the subject of continuity has been introduced, buy-in has been secured with the current steward and a timeline to transition has been established, the independent director can now encourage a formalization of the process at the governance level of the organization.

### **MATCHING INTENTIONS WITH TALENT**

The owners' intent should be clarified and sometimes a trusted independent advisor can help think it through. Is it to establish a legacy and pass it on to one or more of their children or, depending on the circumstance, release their children from this responsibility and cultivate non-family candidates who may already be executives within the business? There are times when a hybrid is appropriate or skilled in-laws could be considered. For example, a member of the steward's family may have the intent and potential to be the business leader, but not yet possess the full range of skills needed to lead the enterprise. The board may then elect to appoint a non-family professional executive as interim leader who agrees to run the business and mentor the younger family member until such time as the transition can occur.

However, all stakeholders need to come to terms with the talent required to carry the owner's intent to fruition. While there may be a desire to form or continue a legacy, much depends upon how the human capital within the family has been cultivated over time. It is not enough to want it for your children. Nor is it enough for your children to want it. What is most important is determining who can build and lead a team that will take the enterprise to its next strategic frontier. What skills and abilities are vital to success? What attitudes and values will ensure confidence among stakeholders? How will we reconcile these criteria and create a reasonable selection process? Define these qualities up front and drive consensus on them. Again, part of the value an independent director provides is broader managerial exposure and importing this knowledge into the conversation. By defining the attributes up front, it increases objectivity in assessing who best fits the criterion reducing friction downstream come assessment time.

If the family is intent on a family member succeeding the matriarch or patriarch in the family enterprise, then a great deal of foresight is required to cultivate the desired skills and range of experiences within the time horizon allotted. Often, if the family governs itself outside the family business with a family counsel (formal or not), they will be able to work with the independent member(s) of the board to establish a set of criteria and a process to cultivate capable (and willing!) members of the family who want to throw their hats into the ring when the time is right. Too often it is assumed that a family member wants to continue in their parent's shoes. Some families set up an educational policy for family members interested in continuing in the business. They may have had early exposure to the family enterprise prior to post-secondary studies, but to be considered for leadership track roles they may have to complete a related program of study at university and upon graduation prove themselves outside the family business for a set period of time. Then once the minimum criteria have been met they may venture back to the family business.

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Once willingness has been established then the next steps include having a conversation between existing family leadership and the independent directors on how the family candidates for succession will be developed and monitored. To maximize objectivity, the board may wish to establish a continuity committee made up of the independent directors and perhaps the business' HR lead reporting regularly to the full board on progress. Development may include additional training and hands-on exposure to various business challenges and opportunities that can test their skills in real time, especially when reporting to non-family executives. There are many variables, but careful program design, effective communication of criteria and conscientious monitoring will be useful to manage the expectations for all involved.

## HELPING THE FAMILY MAKE THEIR DECISION

Finally, there is the application of judgement. If the process was built and monitored effectively, assessment of the objectives should be easier to perform. Independent directors have the ability to help the current steward, and the rest of the board, interpret the data that has been collected over time and lead them through the assessment of candidates. It is important to handle this process with sensitivity and dignity for all involved. A good process will be fair and have lots of check points. There should be few surprises provided there is sufficient feedback in both directions. Ultimately, the decision needs to be made that best supports the needs of the business and the needs of the family given all the variables in play.

Succession is a process not an event. Skilled and sensitive independent directors can ensure the development and application of an effective process that considers both the sustainability of the business and continuity of the family. But you need to remember, you are there to support a decision, not make it. Paraphrasing what was said to me by one senior independent board member of a large family enterprise board: "you must be prepared to be candid, but you also need to recognize that it is not your business and, ultimately, it is their decision to make."

### Director Lens

- ┆ Sustainability of the enterprise and the family are the prime objectives. Reframe discussion and process as continuity planning instead of succession planning
- ┆ Understand as many of the situational variables and dynamics as you can – before you design a process, and embrace that it will be iterative
- ┆ Independent directors can be especially helpful with developing effective processes, communicating parameters to manage expectations, when the time comes, assessing talent that is best suited to carry the organization forward
- ┆ Independent directors can help family leaders understand that a shift in leadership means a shift in their role
- ┆ The time horizon for continuity planning is necessarily lengthy to allow for the rigorous assessment of potential successors and to prepare the family and the business for a change in leadership
- ┆ To maximize objectivity, the board may wish to establish a continuity committee made up of the independent directors and perhaps the business' HR lead reporting regularly to the full board on progress.

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