PRACTICAL GUIDE

SECURING SUCCESSION IN A FAMILY BUSINESS ACROSS GENERATIONS

HOW SUCCESSION MAY BE ORGANISED IN BUSINESSES AND AMONG SHAREHOLDERS

2nd, revised edition

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Please note: Where this practical guide includes references to persons in the masculine, these should be taken to apply equally to persons of all genders.

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FOREWORD

In 2018, the Witten Institute for Family Business (WIFU) celebrated its 20th anniversary. Over this time we have come to know numerous family businesses and business families, and have studied and followed their succession processes. We noticed two factors that guided us in the original formulation of this WIFU practical guide and have inspired us now in its revision.

The first is the unique nature of business and family combinations. Over decades and even generations, each of these companies has developed a specific management culture and approach to dealing with customers, suppliers and employees and, in particular, has found its own way of defining the family business. Close ties between the family, its values and its members are often chosen. However, solutions may differ widely depending on whether the ties are made more concrete through individual shareholders, strategic specifications or recruitment decisions. A similar range of developments may be observed in business families: depending on the understanding of family, combinations of individuals, or personal preferences for closeness and distance, a very individual and specific way of dealing with each other is developed.

Solutions for succession can only be found and assessed by taking account of these particular combinations, i.e. business and family dynamics. A solution which is successful at one business or in one business family may not necessarily work in another company. Any solution for succession must therefore be found with respect for the traditions and particular situation of the business and family. There are no standard solutions and, accordingly, we have not developed standard formulae for a smooth and problem-free succession.

However, this WIFU practical guide exists because we noticed another factor: despite the unique combinations, specific phases can be observed in the succession process with almost exemplary questions to which each business family finds its own answers. This practical guide, therefore, does not offer recipes to be adopted and followed exactly. Instead, it offers food for thought and encourages those involved to individually and jointly address the question of succession, mutually clarify expectations, understand the challenges and, on this basis, find rules of succession that they can implement together.

This guide is organised in three parts:

- Chapter 1 advocates treating succession as a continuous process that can generally be illustrated over 10 phases.
- Chapter 2 offers succinct suggestions for handling common questions concerning succession.
- Chapter 3 provides a brief overview of how common succession processes may look over time.

We, the authors, thank you for your interest in our practical succession guide and are confident that this revised edition will continue to provide ideas for smooth and effective succession in your business.

Witten, September 2020
Torsten Groth, Tom A. Rüsen and Arist von Schlippe

1 | TREAT SUCCESSION AS A CONTINUOUS PROCESS

What is 'succession'? We often think of it as the decision to hand over management: succession determines who will take over management of the company on D-day, who will give up their management position and exactly how the torch will be passed on. However, in our assessment, this common view is inadequate, overlooking the fact that succession not only concerns the management of the company but also the transfer of shares. This reduction to a mere succession decision also ignores many of the succession dynamics in business families that have characterised the lives of family members since long before the transfer of responsibility and will continue to do so *in the future*.

In family business research, it is often said that businesses, like families, go through a process of *co-evolutionary* development, i.e. they develop together. We therefore believe it is more accurate to understand succession as a continuous process not limited to a specific period. Succession begins as soon as children are born and transferring the business to the next generation is considered and it continues over several phases in which youngsters, adults and aging family members have a formative relationship with the business. If we assume that entrepreneurship is to be passed down through families across generations, then there is no end to the process. Succession is therefore a constant concern for both the business and the family. As long as an (owner) family exerts a controlling influence on a business, as long as it can be called a family business, certain aspects of succession should be continuously considered.

We may distinguish between 10 relevant phases of the succession process. These are associated with a specific bundle of questions, which will be discussed below:[1]

The Witten phase model of succession

[1] The phase model presented here is an extension of the Witten phase model of succession. See also von Schlippe, Groth & Rüsen (2012).

Each individual phase contains specific matters that need to be clarified from the perspectives of both the family and the business:

PHASE 1: EXPECTATION OF SUCCESSION

Ideally, a preliminary clarification of succession should begin before the next generation is on the way or, at the latest, when the new generation announces its arrival.

Families in general, and family businesses in particular, are usually established for permanence, i.e. to be 'transgenerational'. It is not just the parents, but also grandparents and, in the case of a family business, employees who are (hopefully) excited about the addition to the family. Whether we like it or not, children signal that the process is still moving, and this demonstrates that there are expectations associating the new generation with the passing-on of an already established tradition. In some business families, these expectations are reflected in their choice of names, for example, naming the (male) first-borns for generations after the founder, or experiencing particular satisfaction at the birth of a male heir.

Expectations for succession directed at a first-born male have been decreasing for decades. This liberalisation must of course be considered positively: we know that women and men, first-borns and those born later are capable of successfully holding management positions and representing the family competently on committees. However, increasing flexibility in formerly rigid approaches does not indicate that there are no longer expectations or hopes when children are on the way. It is worth considering which open or secret wishes might be attached to the next generation.

PHASE 2: RAISING FOR SUCCESSION

When? When the successor generation is between approximately 4 and 16 years old.

It is advisable to start the first preparations for succession at an early age. The exact time is determined not so much by the family as the social environment. What it means to grow up as the child of a business family – particularly if the business is the focus of public attention and the children bear its name – should especially be addressed before children discuss (and compare) their parents' professions at school. Familiarise children with the business and its special features according to their age, without creating any pressure to follow in their parents' footsteps. Visit production sites or subsidiaries; participate in the company summer event, the inauguration of a new building or an event honouring jubilarians all these opportunities can help the younger generation to develop an emotional connection with the business and its employees. Under no circumstances should children be monitored too early, at school or play, for skills beneficial for a career in the business.

There are also parents who want to protect their children and are keen to keep them away from the business, believing that this 'liberates' their children and allows them to grow up without being affected by the business. However, this sends children mixed messages: they are kept away from something that may play a significant role in their later lives or to which they may even have to dedicate their whole life. How can they have a healthy relationship with something from which they have been shielded? This artificial behaviour is also difficult to maintain, especially in business families whose members live in direct proximity to the business, who share their names with that of the business, or where one or both parents work for and are affected by the business in their daily family life (e. g. cancelling summer holidays at short notice because of technical problems at work, being unable to attend school performances due to a customer visit, etc.).

Not so easy to bring up a Successor!

Children in business families also often perceive the business as being like a sibling that regularly competes with them for their parents' time and attention because the broad and complex requirements of the business create a 'communication shortage' for other daily family matters, such as nursery school, academic performance, homework, etc. The emotional state of their parents, grandparents and other close relatives is also often affected by business performance. Intentionally excluding this factor and its crucial influence on family dynamics from family communication may result in an aversion to the unknown.

How parents communicate about the family business at home is therefore of great importance. Do children see, for example, their father as a satisfied entrepreneur who discusses the business, its performance and successes with joy, and is proud when coming home from work? Or do parents convey to their children feelings of burnout, endless problems, disillusionment with the business or even anger at the company, investors or employees?

In this phase, ‘raising for succession’ is largely the result of the image of the business conveyed by the parents: the business-related scenes a child perceives[2] shape their image of what it means to be a member of a business family – whether this is seen as a source of energy and opportunity or of burdens and stress, or even as the cause of many problems: ‘Father is never home’. How these early impressions shape the child’s later feelings about the business should not be overlooked or underestimated.

It therefore seems advisable to find the middle ground in the first few years, offering children the opportunity to grow up without being fixated on succession, while at the same time familiarising them with the business and the prospects of a possible succession.

PHASE 3: UNCERTAINTY AMONG SUCCESSORS

When? When the successor generation is between approximately 12 and 20 years old.

During the first phase, in which parents represent and convey the advantages and demands of the business, an overlapping second phase begins in which children develop their own feelings about the business and succession. In this phase, the struggle between autonomy and belonging that is common in puberty extends also to succession. Times of great enthusiasm (‘I’m going to join the company!’; ‘I want to do what my parents do!’) are often followed by times of great rejection which may be expressed impulsively (‘I’m never going to do what you want! I’m going to live my own life!’). During this emotionally turbulent phase of the child or youth’s development – which is not only a difficult time in business families – it is important that the two generations do not lose contact with each other.

It is especially important for parents to see both excessive eagerness for and aversion to succession as learning phases. During puberty, young people test their independence and learn skills that will be important for entrepreneurial thinking later on. If, in this phase of life, the independence of the new generation expresses itself through vehement opposition to their parents’ plans for succession, it may be helpful for parents to know that experience shows that this is not a definitive decision that will necessarily still be valid ten years later.

In this phase, business families face the challenge of providing fertile ground for the learning phase, from which attitudes towards succession may develop. This requires resolving the paradox that the fundamental attitude must be developed internally by the child. Parents may offer encouragement and suggestions, but children ultimately ‘raise themselves’.[3] The soil must not be ‘over-fertilised’ with parental expectations. Regular invitations and offers to participate in business or business family events may help maintain informal ties to the family business in this phase and strengthen existing ties without creating or revealing set expectations for succession.

[2] In this context, socialisation is also referred to as ‘internalisation of scenes’, Petzold (1993).

[3] According to a provocative thesis of child psychiatrist, Wilhelm Rotthaus, who regards socialisation as a self-organising process (2010).

An early acceptance of the succession does not mean that the question of succession has been clarified, and an interim rejection of succession may, under certain circumstances, prepare the ground for a much more conscious acceptance.

PHASE 4: PREPARING FOR (POTENTIAL) SUCCESSION

When? When the successor generation is between 16 and 30 years old.

For many successors, feelings of ambivalence continue throughout vocational training. This phase is characterised by the question of whether vocational training or higher learning should be oriented directly towards a future in the parents' business, or whether to study according to one's own interests. The relevance of the choice of education should not be overlooked, especially from a parental perspective. It is important to ensure that such choices are not simply a continuation of an inner opposition to succession, which in terms of age is more appropriately attributed to phase 3: 'I'm going to be an artist' ... not because of artistic talent, but to demonstrate 'independence' to father or mother.

As entrepreneurship develops in an increasingly disruptive fashion and traditional business models are subject to scrutiny, even seemingly unconventional approaches and CVs, combined with later professional training and entrepreneurial experience can still offer opportunities to join the business. Education may differ from that expected from the desired role at the business. If an assumption of shares is envisaged, every successor may start to develop professional ownership early, irrespective of their own career aspirations.[4] If it becomes clear that a successor would like to pursue a management position, the educational path will need to be increasingly adapted to the requirements of the business. On no account should a career in the industry be the sole focus. In the past, gaining professional experience with a competitor or within

[4] For the contents of professional ownership development programmes, see the extensive WIFU practical guide on professional ownership development (POD), Rüsen (2020).

the family business value chain before joining was considered adequate and essential preparation. As a result of the often considerable upheavals in the course of the digital transformation, it has become increasingly clear that successors also benefit from spending some time as ‘digital journeymen’.[5] Acquiring practical experience in a digital business environment helps successors learn new and formative business models and understand the disruptive approaches of their practitioners. In addition to establishing the next generation’s own networks with the start-up, tech and venture scene, this will create future-oriented digital openness and a willingness to initiate and support digital transformation in the family business.[6]

Ideally, training, studies and initial practical activities can be found that satisfy the interests of the next generation while preparing them for potential managerial or committee succession, and which also present options for other professional goals within and outside the family business – and perhaps even provide a perspective beyond that of one’s own industry.

It is helpful for everyone involved if the educational criteria for professional ownership and family firm succession, and scenarios for joining the business are clearly communicated to everyone early on, so that they can be matched with educational choices.

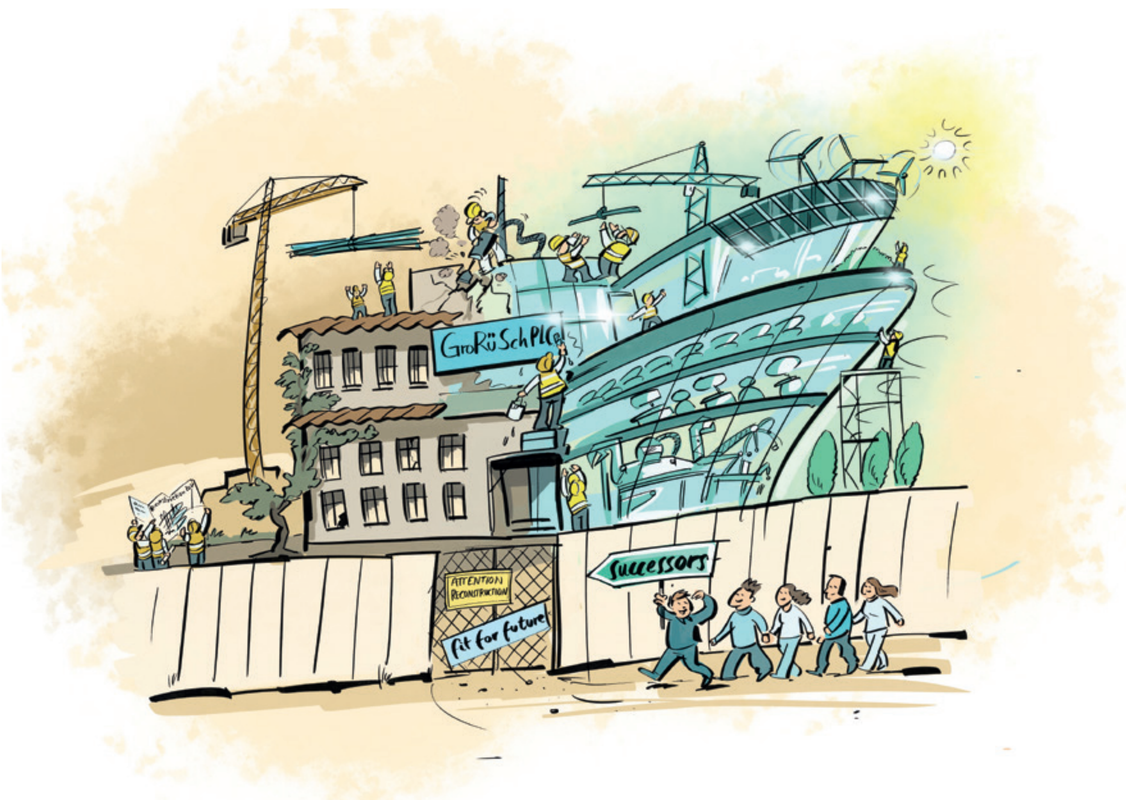
[5] Analogous to the ‘journeymen years’ practised in craft professions since the Middle Ages, this involves successors learning work methods and developing digital disruption skills, see Rüsen & Heider (2020) for further details.

[6] For the significance of digital openness and readiness for the digital transformation of family businesses, see WIFU’s practical guide to business family digitisation by Bretschneider et al. (2020).

PHASE 5: PREPARING THE BUSINESS

When? When the current generation is approximately 55 years old.

Preparing for succession is not just a question concerning the education of the next generation; the business must also be involved. The business should be prepared for handover, at the latest, when the current (senior) generation is in its mid-50s. This means – if this has not already been done – developing management structures that render the business less dependent on current management which, as is typical for a family business, is strongly based on specific individuals. The stronger the 'self-management' of the business and the more independently the second management level learns to make relevant business decisions, and is aware that it may do so, the easier it will be for other family members to assume or intentionally decide against managerial responsibility. If there is no family-internal succession, the management of the business will still be secured and there are no, or fewer, serious consequences to be feared. The successor generation is spared a predicament ('If you don't take over, there won't be anyone to run the family business ...') that deprives them of their freedom of choice.



Preparing the business for succession also includes a strategic review of the extent to which major innovation and digitalisation steps, growth requirements or internationalisation measures are pending. These developments must be decoupled from successor selection (see phase 6) as far as possible, so that the next generation does not have to deal with radical change processes in a phase in which they have to consolidate their own position and in which the interaction at management level is developing. Ideally, an internal 'fit for the future' programme should be conducted during this phase, after which the business will be strategically and managerially positioned for the future and can be handed over to the next generation in a 'clean-swept' condition.

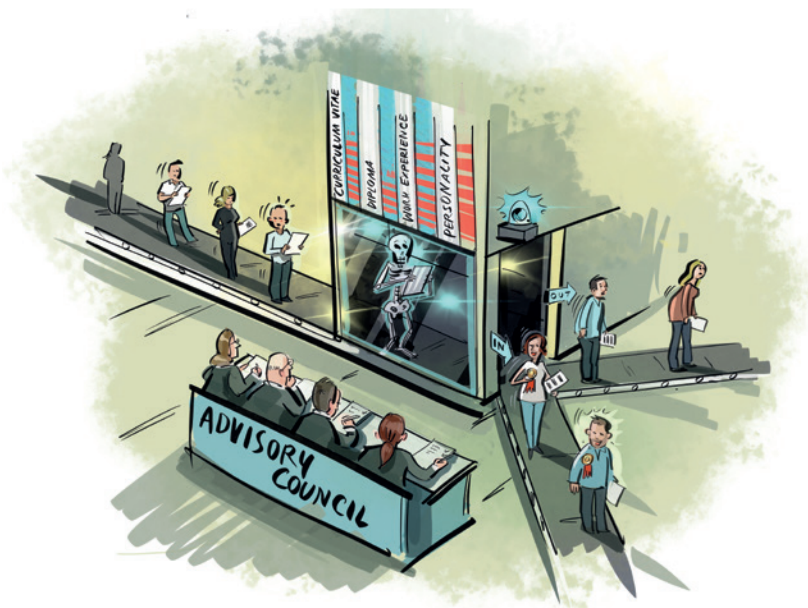
PHASE 6: SUCCESSOR SELECTION

When? When the successor generation is between 20 and 35 years old.

Before the next generation joins the business, the shareholder family must agree on various aspects and conditions of joining and, if necessary, leaving the business. The criteria are normally specified in a family constitution or even in the shareholders' agreement; as part of family strategy considerations, the criteria are normally specified in a family constitution or even in the shareholders' agreement; reviews of current competence are assigned to committees consisting primarily of non-family members.[7]

Expected abilities and skills (e. g. level of education, digital skills, management experience at external businesses, etc.) and clear specifications for positions (skills and experience required of a department head or manager) must be formulated. Specifying requirements clearly not only helps family shareholders to make their selection based on criteria of competence instead of birth; it also allows the successor generation to understand the work and experience that are necessary, and what the consequences of not satisfying these requirements may be. Special assessments may be useful for successors.[8] However, the particular successor situation and requirements for the desired management position must be defined in advance because requirements specifications for managerial activities may differ considerably from the tasks involved in a strategic holding company or required of a family member on a supervisory board.

If it becomes clear that a candidate cannot satisfy the defined requirements, it is usually possible for the candidate to leave the business with far less conflict.



The basic principle of this phase is to create business family structures in which the family does not make decisions alone regarding the ability and suitability of family members.

[7] See especially point 4 of the Witten process model for family strategy development described in further detail by Rüsen, von Schlippe & Groth (2019).
[8] For further details, see Felden & Rüsen (2020).

PHASE 7: JOINING THE BUSINESS

When? When the successor generation is between 20 and 35 years old.

If everyone involved agrees on internal family succession, how the successor will join the business and the path to management must be planned in case of managerial succession. Each of the learning phases the junior undergoes must be considered as part of a rough draft of a career, so that everyone understands why and how long he or she will serve at each department, manage a subsidiary or change projects, etc.[9] This will formulate clear expectations between the business and the senior and junior generations. If these expectations cannot be met, appropriate consequences must be demanded from everyone involved. When completing a career step, reflection helps make the next steps – or an exit without losing face – possible.

A comprehensive plan for joining the business therefore involves planning – *before* they even join the business – how the successor can leave the business (again) without losing face in the case of poor performance or if the conditions for cooperation prove to be inexpedient. Sometimes, after terminating the initial recruitment, several years of service at another business or establishing their own business, a second attempt may be made under more favourable conditions.

[9] Siehe hierzu auch Löhde, Rüsen & Calabro (2016).

The practice of having children slide into a business indefinitely without an office or defined function, while unfortunately still observed, is not recommended. There is a serious danger of transferring a child's status onto the business. Successors often only participate in such aimless undertakings because they hope to be recognised one day, and are unlikely to take on a similarly ill-defined position at another company where they would require a clear job description and career path.

Offers from parents to join the family business are normally experienced as emotional moments of personal appreciation that should not be thwarted by demands for professional career planning. Setting a salary when joining is more like negotiating an allowance. Successors joining the family business without a clear agreement hope 'that a good solution will be found'. They subject themselves to the risk of having difficulty finding work in their mid-30s if they cannot obtain a management position and therefore having 'no alternative' but to remain at the family business. The literature on the subject describes this impossible combination of factors as the 'successor's trap'.[10]

If succession takes place not in the management of the company but on the level of a supervisory body, integration is different. Depending on existing professional experience, shareholders' internships lasting several weeks and specific trainee programmes may be organised for prospective family members on the supervisory board. These are intended to provide a deep insight into the processes of service creation, strategy development, corporate culture and the interaction between different departments, areas and business fields of the company. This allows newly joining committee members of the next generation to not only bring in their own perspectives and experiences of the family business' inner workings but also to incorporate these into their decision-making process.

Avoid long, poorly or unstructured learning phases that, due to a lack of opportunity for promotion, suggest 'eternal junior' positions.

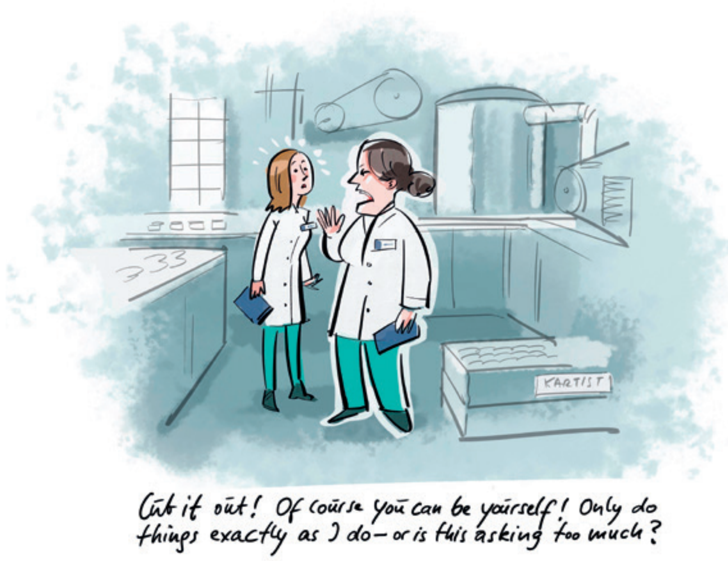
[10] Such as Kaye (1996), who studied a series of dramatic negative developments at family businesses.

PHASE 8: TRANSFERRING RESPONSIBILITY

Characteristic: both generations together in an executive function.

Over the course of the succession process, there may often be longer phases in which both generations are on board. This time together places particularly high demands on everyone involved. Functions must be determined and expectations made clear between each other and towards the workforce. When both generations appear together at the company or at a committee meeting, they always represent a parent-child combination. One person has far greater experience than the other. The younger generation may stand for renewal, digitalisation, decentralisation and turning away from the style of sole patriarchal decision-making, etc. Varied concerns and fears, hopes and wishes are carried over from the business to the unmatched pair. Micro-political games (attempts to play one off against the other) may push both to their limits. If the generations are seen not to be aligned, the workforce may split – groups may, depending on their interest, support ‘their’ generation.

The senior generation has the greater responsibility for making it clear externally that decisions will be made and responsibility will be borne jointly, even if this no longer corresponds to former practice.



An ultimate MCA in succession occurs when juniors and seniors make derisive comments about each other in the management board or in the company, and reverse the decisions of the other generation. Unfortunately, such practices occur and must be mutually considered management errors because the resulting damage is often irreversible.

Practices in which members of the junior and senior generations regularly reflect on their collaboration with external moderators have proven to be successful. This allows misunderstandings to be resolved, perceived injuries to be addressed and emerging conflicts to be managed in a timely manner. Without such arenas for exchange outside daily business operations, unresolved questions and conflicts all too often find their way into joint management or supervisory board sessions.[11]

[11] For typical conflicts in business families, see the WIFU practical guide by von Schlippe & Rüsen (2020).

PHASE 9: DEPARTURE OF THE SENIOR GENERATION

When? Starting roughly when the departing party turns 60 or the successor turns 35.

In the penultimate phase of the succession process, the focus is largely on the senior generation. As this generation has characterised the business for decades and many employees know no other bosses, the definitive change of managerial responsibility must be clearly marked and communicated. This communication must be visible both externally (e. g. communicating the handover at the works meeting) and internally (e. g. changing offices to have the next generation move into those of the previous management, etc.).

Previously-defined actions which are not just symbolic, e. g. a noticeable reduction of the presence of the senior in the weeks or months before the handover and specific changes to former business and decision-making practices, should be specified. The following questions, among others, must be answered:

- Who makes the final decision?
- To whom should employees turn with their concerns and fears?
- How are changes communicated?
- What do we do if staff come to 'the old boss' out of habit?

The role and function of the senior generation at the company should also be determined: will they leave entirely, merely serve as advisors (including an official advisory function), or are there skill areas in which they remain indispensable?

There is no formula for a successful transition to the post-active phase. There are positive and negative examples for all options. It is important to clearly define roles to prevent lower-ranking positions from becoming backdoors through which the previous management upholds the status quo. It may be useful to regularly reflect on the success of 'out-phasing' by addressing returns to previous behaviour and submitting necessary requests for support to the senior generation.

The task of the departing generation is to work on redefining their private lives which were often sacrificed for the business. It is often helpful to find alternative hobbies, tasks and activities that make it easier to learn to let go long before turning 60.

PHASE 10: REORIENTATION IN THE POST-ACTIVE PHASE

When? Upon the departure of the senior generation.

After handing over responsibility to the junior generation, the departing generation begins a new phase of life. On the one hand, they are largely free from the burdens of work and the pressures of responsibility but they must also learn to make use of this newly acquired time. If the senior member has no alternative commitments – e. g. at charitable institutions, as a business angel for business founders or as a lecturer at educational institutions – or if they have no time-consuming hobbies after the handover, the latent risk of relapse and interfering in business decision-making processes is very high. Such behaviour is often justified by undesirable developments at the company for which the junior generation is made responsible but it is often related to the senior's wish to still feel needed.

After what is normally more than 30 years of full-on commitment, this desire is understandable. Sailing and golfing rarely remain appealing for long. If the senior has no alternative commitments, undesirable developments at the company are a popular reason for them to be able to (or 'have to') become fully involved again. Since there may be situations where the senior's involvement may genuinely be a substantial help to the business

during existentially threatening times, one thing is clear: the better the senior member has defined the meaning of their own life, the better they can assess the business objectively, rather than out of concealed neediness.[12] There is no way around what the literature on the subject refers to as 'consciousness raising'. Experience shows that this is more likely to succeed through discussions with trusted persons, such as friends in a similar situation or people who know the business and the family well and can provide selfless advice. Professional coaching may also be advisable.[13]

The family must systematically monitor relapses and remain in critical dialogue with the senior generation. This can maintain and channel the senior generation's entrepreneurial spirit.

SUMMARY

We consider succession planning to be a permanent process and the 10 phases with their specific requirements to be a contribution through which awareness is heightened within the business family in the long term. This awareness may be considered the most significant success factor for succession because the view of the process that it engenders increases the likelihood that the individuals and generations involved will maintain a dialogue about their wishes, expectations, interests, etc. without losing sight of the company's well-being.

[12] This psychological trap that may entangle both the senior and the junior is discussed in detail by von Schlippe (2012a): 'lack of competence' of the junior may be the 'joker' for those who cannot let go.

[13] WIFU set up a working group, 'learning to let go', which has been meeting regularly since 2018. Meetings focus primarily on exchanging experiences with the succession situation of affected members of the senior generation who may share their experience, questions and fears (further details at www.wifu.de).

2 | 10 TIPS FOR THE ORGANISATION OF A FAMILY-INTERNAL FAMILY FIRM SUCCESSION

In addition to the process overview, the following ten principles and guidelines have proved effective in practice:

1 | DISCUSS SUCCESSION!

For everyone involved, succession involves spoken and unspoken expectations, hopes and disappointments, and uncertainty about how each individual is *regarded* and *valued* by others. For the relinquishing generation, there is another psychological factor, as addressing succession also means facing their mortality. These are fundamental questions which bring family logic and business logic together particularly intensely: assessing employee *qualifications* is not easy, and doing so with family members raises the additional question of how the decision will affect *relationships* with those individuals and with others in the family. This mix of objective relationship questions may potentially involve strong emotions. Concern about not being able to handle these emotions often leads to handovers being intentionally or unintentionally delayed. This is not necessarily due to the often-discussed unwillingness of the senior generation to hand over responsibility, but to the desire of parents not to make business mistakes or disappoint members of their family.

The junior generation is also party to non-communication about succession: due to insecurity about being able to live up to the task or concerns about losing their independence, this generation avoids both the question of succession and the senior generation.

Although succession may be on the minds of both generations, there is little joint discussion and no systematic exchange because of these double-avoidance strategies. As understandable as this hesitance on both sides is, treating succession as a taboo subject is not helpful: succession and its unanswered questions must eventually be discussed. Consider this: avoiding making a decision also becomes a decision – against succession.

If, as described in Chapter 1, succession is regarded as a process and, therefore, as a task of permanent reflection that is discussed by those involved during various phases of their lives, the decision about succession loses some of its existential weight. The parents no longer have to make the succession decision (after much deliberation) on their own and their children are not faced with the difficult situation of having to commit and say yes or no on a given day.

Framed by family strategy considerations, options and solutions may appear over the years the pros and cons of which may be weighed based on the criteria of the business, the family and personal sensitivities. Discuss succession early, and allow yourself and the other members of your family to take the time to consider different perspectives.

2 | DIFFERENTIATE BETWEEN SUCCESSION ON THE SHAREHOLDER SIDE AND ON THE COMPANY SIDE!

The business is the focus of attention and makes demands on the management on a daily basis. It comes as no surprise, therefore, that 'succession' is often understood to refer to the handover of operational management only. This focus, however, must not result in shareholder succession being marginalised. The shareholders build the company's backbone, they must take or support strategic decisions of far-reaching impact, develop professional ownership[14], assume management, board or advisory positions themselves or fill them with suitable candidates.

Many prominent cases of failed family businesses may be traced back to owner structures that reveal a lack of decision-making ability and clear identification of roles. Typical misdevelopments

[14] See Rüsen (2020).

include impasse situations between siblings or family clans, shareholders mainly interested in dividends and less in corporate development, or patriarchs who continue to dominate operations after having formally handed over their shares.

All owner structures have advantages and disadvantages. It is therefore advisable to check on a case-by-case basis which patterns of handover have proved successful in the business history, and which changes in the ownership structure may be expected from the next and succeeding generations with regard to the number of shareholders. Experience shows that provisions along family lines are most likely to generate lasting conflicts; here, the danger is that voting follows rigid principles, and that clan interests take precedence over business interests.

Generally speaking, the smaller the number of shareholders, the more important it is to integrate external knowhow. This not only contributes additional expertise but also helps to avoid stalemate and conflict among the few owners involved. The larger the number of shareholders, the more relevant it becomes to introduce formal decision-making structures and establish a family constitution if the growing circle of owners is to remain capable of taking decisions and committed to the business.[15]

3 | CONSIDER FINANCIAL, TAX AND INHERITANCE LAW IMPLICATIONS!

Successions are strongly influenced by tax and inheritance law matters. Determining who may be considered for management succession and the formula for transferring controlling shares should go hand-in-hand with the clarification of financial, tax and inheritance law questions. The following questions are especially important:

- Should there be anticipated succession?
- Do other siblings have to receive compensation ('compulsory portion') or are compulsory portion waivers required?
- Should a pension be part of the succession and, if so, how should this be regulated?
- Which tax-free allowances may be used?
- What effects will the application of tax exemption provisions have on the business?
- Do the articles of association have to be adjusted?

The constantly-changing regulations and provisions are so complex that they may require early consultation with an expert.[16]

However, considering tax and legal aspects should not result in action based solely on tax optimisation. Always find a balance between family dynamics and individual needs.

[15] For further details see von Schlippe, Groth & Plate (2011) and Rüsen, Groth & von Schlippe (2012).
[16] For further details, see the WIFU practical guide on inheritance tax by Layer (2017).

4 | FOCUS ON THE BUSINESS (SEPARATELY FROM THE FAMILY)!

Family firms are characterised by very close and mainly positive interaction between family and business. The family has much greater impact than in other types of business but succession processes tend to reveal the downsides of this so-called co-evolution. Family considerations may have an exaggerated, and therefore negative, influence on business decisions if, for example, decisions relevant to the survival of the firm are avoided because they might affect individual family members or endanger family harmony. This is why the following test questions should always be asked, even if plans for succession procedures are already taking shape:

- What would the business look like without the family?
- Which business decisions would be different in this imagined scenario?
- Which strategic and operative challenges would arise in this case?

Clear answers to these questions, deliberately excluding the family as a factor in the picture, may also facilitate the search for a succession scenario. The idea is not to eliminate or ignore the family but to allow a critical scrutiny of the situation for any underlying family-related considerations that serve only to maintain family harmony but are not in the interests of the business.

Time and again, we find that the only family firms to survive for several generations are those who – in the case of doubt – place the business above family interests but do so without affronting or demotivating family members in the process.

5 | FOCUS ON THE FAMILY (SEPARATELY FROM THE BUSINESS)!

Prioritising the survival of the business is not the same as complete disregard for the family. Permanent interaction between the firm and family is reason enough to reflect on the issues related to the specifics and characteristics of the family and its individual members:

- What would the family look like without the business?
- Which needs of family members become apparent?
- Which decisions affecting the family would be different without the family firm?
- Which issues and topics would the family have to prioritise?

Each owning family faces a two-fold task: it must act for the benefit of the business and, at the same time, not lose sight of the wellbeing of its members. Family cohesion is a valuable asset and should not be jeopardised by succession. Conflicts in owner families frequently originate from succession decisions which offend other close relatives and remain unforgotten and unforgiven even after decades.

If urgent business considerations and family affairs are discussed as separate issues, a new perspective on succession arrangements will be the result in most cases. All those affected should be aware of the internal dynamics involved and reach a joint decision precisely because of the close ties between family and business.

A decision on succession always means striking a balance between business necessities and family needs. Recognising this and acting accordingly are significant steps towards a successful solution in any scenario.

6 | PRIORITISE COMPETENCE AS A CRITERION FOR SELECTING CANDIDATES FOR SUCCESSION!

It is not unusual – and does not reflect badly on a family – if family-firm succession cannot be resolved within the family. However, this statement already draws the mental model of some business families into question and we therefore recommend being aware of which of these models are followed by the family and by specific family members.[17] Although many family entrepreneurs still prefer succession within the family, this wish is only realised by half of family businesses.[18]

Clinging to the hope of appointing a candidate from one's own family, even when none of the children has the objective and/or personal qualifications needed, cannot be in the interests of the business or the family.

First, ask yourself the following questions:

- Which competences would you expect of an unrelated manager? Is there a job description for the position desired by the successor?
- Would I consider my (family-internal) successor to be qualified if he or she were not a family member?
- Is there any reason not to conduct a special assessment centre for interested members of the next generation?
- Who can act as an external and neutral authority for the decision about satisfying the necessary competence and experience requirements? Are there any advisory council members whom everyone accepts and who are not part of the family? Can the family agree on a neutral assessment procedure?
- What especially characterises the business family's current mental model? How can change be initiated?

Appointing a manager from outside the family is more than an alternative option. Managers from outside the family may provide additional industry knowledge, become partners or mentors of (potential) successors, and may also act as 'regents' in management during transition periods. If members of the next generation are considered for managerial succession, they should always exhibit a level of competence comparable to that of a potential manager from outside the family.

'Competence before birth right' is the rule of thumb for succession. However, because objective assessments of competence can be extremely difficult from a parental or family perspective, consulting a human resources committee, external members of the supervisory board or external experts is advised. As a basic principle, the family should never decide on the suitability of family members alone.

[17] Even if a good solution is offered, it will not be chosen if it contradicts the decision-makers' internal model of what constitutes a 'good family business'. For further details, see the WIFU practical guide on mental models of business families by Rüsen, von Schlippe & Groth (2020).
[18] Schwartz (2018).

7 | SUCCESSORS MUST BE ALLOWED TO SEEK THEIR OWN ENTREPRENEURIAL PATH!

Children develop their own personality from an early age and it is up to parents to learn to respect their children as individuals in their uniqueness and diversity. Exaggerated expectations for children's careers lead to disappointment on both sides and may cause conflict within the family. The love and responsibility of business-owning parents are expressed by their willingness to accept and support their children's individual interests, skills and competences. This also means approving their children's right to their own life experiences, not in the immediate vicinity and under the direct supervision of their parents, but in another city or country, or at another business.

If a member of the family wants to take over the family business, they should follow their own path and must be allowed to develop freely. This means, firstly, trusting them to forge their own path and, secondly, not only *supporting*, but also *challenging* the potential successor before handing over responsibility.

8 | DON'T LEAVE SUCCESSORS (OR SENIORS) HANGING!

Recognising the individuality and independence of the successor generation must not be confused with blind trust according to the maxim, 'They'll be fine! I had to make it on my own too!' Many successors fret about the expectations placed on them and the responsibility, and search for orientation. Dialogue between generations may prove to be especially helpful here. The current seniors were once in a similar situation and had to prove their business competence to their parents or third parties. Understanding, solidarity and trust between parents and children help to correct the painful experiences of the past and prevent them from happening in the future. Sons and daughters won't have to think of the business as a burden and/or a threat, but as a challenge that enables them to form their own learning and life experiences.

Comparable offers for discussion and reflection should also be made to the senior generation. This generation often finds it much harder to talk about its own questions, concerns and needs, as its members were raised and socialised at a time when internal family communication was not highly valued. Representatives of the relinquishing generation often feel they are perceived as an impediment to change during the succession process and cheated of recognition for their life's work. When participating in discussions about the successor generation, they often long to explain and open up to the family, even if this has not been done for years or decades.

9 | CONSIDER ALTERNATIVES TO FAMILY SUCCESSORS!

Consider a number of alternatives to succession from within the family which may serve to ensure the survival of the family enterprise. Apart from the appointment of external managers as mentioned above, other options include management-buy-out and management-buy-in, selling to another company, IPO or establishing a foundation.[19]

It is a legitimate and understandable wish to keep the business in the family but this objective should not cause serious and perhaps unmanageable conflict within the family, with ultimately negative effects on the business. Nor should a successor be selected for reasons of kinship alone without the required competences.

The business, with its history, products and yields, is at the commercial and ideal core of most owner families; the *primary* issue in succession must therefore be to hand over a viable business. Whether one's own children will assume executive duties is of *secondary* importance in this context.

10 | EXTERNAL ADVICE IS USEFUL!

Handing over a family business represents one of the greatest changes and, therefore, challenges to the business and family. Ways of doing things that worked well for decades are questioned. The succeeded generation is suddenly no longer in command. Instead, the son, daughter or nephew hold the reins. Nothing is like it used to be at the business and the family: all those involved – employees as well as family members – are concerned because the employees have also grown accustomed to this person-oriented form of management.[20]

In addition to consulting an expert regarding legal and tax matters, it is useful in most cases also to hire advisors and coaches who accompany the handover briefly or over a longer period and establish it on a safe track. For example, scheduling regular jours fixes to discuss succession between the succeeded generation, succeeding generation and an external coach enables problematic conduct, insults, undesirable developments and decisions to be handled separately with an external moderator without issues building up over time and being released at an inopportune moment. The senior and junior generations thereby create their own platform to reflect on the succession process undisturbed, i. e. to observe each other's behaviour and agree on necessary changes.

Seeking consultancy service is not an admission of weakness. On the contrary, it demonstrates a responsible approach to the most important decisions in the life of businesses and their families.

[19] See the WIFU Practical Guides on IPOs of Family Businesses, Bandov et al. (2019) and on Foundation Models for Family Entrepreneurs, Kirchdörfer (2020).

[20] Although much discussion focusses on patriarchs or matriarchs, remember that set patriarchal or matriarchal patterns of communication are what is being changed. See Groth & von Schlippe (2008).

3 | IDEAL HANDOVER PROCESS

Finally, a brief proposal for organising the ideal handover process is presented. This process is divided into two parts: the first for preparation and expansion of options and a second whose specific objective is the handover of responsibility.

PART 1: PREPARING THE SUCCESSION PROCESSES/ESTABLISHING ELIGIBILITY FOR SUCCESSION IN THE BUSINESS AND IN THE FAMILY	
1	Joint development of a strategic family understanding for the business family regarding fundamental aspects of the company: continuing the business, aims and purposes of the business, values of the family, etc.[21]
2	Informal introduction of the children to the option of taking over a function at the business in the future.
3	Discussion of potential educational paths and studies that satisfy the successor's needs and interests and correspond to the requirements of possible management positions at the business (or at least do not impede the path to succession) if succession is to be considered.
4	Introduction of the successor generation to the role of the shareholder (irrespective of managerial succession).
5	Preparing the business for succession, i. e. establishing management structures that make the business (more) independent of the current (family) management.
6	Specification of the requirements for future successors.
7	Support for successors in the first steps of their career (within or outside the family business): preparation of a personal development programme for personal, social, professional and business competence.

[21] For further details, see von Schlippe, Groth & Rüsen (2020).

PART 2: SPECIFIC ORGANISATION OF THE TRANSFER OF RESPONSIBILITY

1	Analysis of the business and its strategic perspectives for development and management challenges.
2	Assessment of the potential of interested family members based on existing management options (or committee positions, if applicable) and review and assessment of the potential of alternative recruitment options (inside vs. outside the family).
3	Preparation of the senior entrepreneur for the personal release from previous entrepreneurial tasks as well as preparation of the second management level and the workforce for changes in organization and leadership style.
4	Selection of the successor according to competence criteria and involvement of third parties.
5	Development of a plan for the next steps to the top.
6	Establishing managerial and advisory council structures that fit or add to the new management mix.
7	Taking over responsibility step-by-step and in tandem with the handover of responsibility from the previous management.
8	Ensuring that the successor assumes management of and responsibility for the business in a manner that makes the transition clear for everyone involved (in a ceremony or small event).
9	Departure of the senior generation from management. Assisting the senior members with the assumption of an advisory function within or outside the business.
10	After succession is before succession: the combination of family members changes with each succession, and another generation becomes the focus. A family strategy is a permanent task with constant reflection on and rethinking of fundamental family strategy premises. What matters is not the charter in the drawer, but the process through which the family manages itself.

Succession rarely goes according to plan. Our research shows that there are many ways and successful solutions[22] and it is important for every family to find its own path. Everyone involved in succession will experience times of uncertainty along the way. Succession raises central questions about the identity of everyone involved (including those who are not the focus), about a life's work and life choices. The quality and intensity of the emotions involved can be found in all families; however, in business families in which the option to 'leave me alone! I'm moving!' is not available, or not to the same degree, such emotions may become particularly intense. It has been stated above that the fear of this intensity may sometimes result in succession being treated as a taboo topic. This is not necessary. Today, a wide range of counsellors, who are also trained in family therapy, can offer support to families who have become stuck.

Finally, this WIFU practical guide aims to encourage families to deal with the critical matter of succession early. We would be delighted if our remarks were of assistance in ensuring that the unique opportunity of keeping a business in family hands for generations is seen by everyone involved as a creative opportunity and not as a risk, a threat or even a burden.

22 For further details, see von Schlippe, Groth & Rüsen (2017).

4 | SOURCES AND OTHER SELECTED WITTEN TEXTS ON SUCCESSION IN FAMILY BUSINESS

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The Witten Institute for Family Business (WIFU) of the Faculty of Management, Economics and Society of Witten/Herdecke University is a pioneer in Germany's academic research and teaching on the special features of family businesses. Three fields of research and teaching – business administration, psychology/sociology and legal sciences – mirror the factors shaping family businesses. This has enabled the WIFU to develop a unique expertise in family businesses, made possible by a group of 75 family businesses. As an institute for family businesses, the WIFU can thus work to support family businesses on an equal footing with them. With its current 20 professors, the WIFU has made significant contributions to the cross-generational viability of family businesses for over 20 years.

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