

Succession as a fair process

Learning materials for family businesses
Module no. 2



Erasmus+

In this module you will learn

What is fair process

„3E“ principles of fair at the process

DECIDE model: 6 steps of fair process

Useful tools for every step of fair process

Concept of fair process

- ❖ The concept of fair process stems from the courts of justice, where the perception of the fairness of a judgment is heavily influenced by the perception of the fairness of the procedure.
- ❖ For decisions to be perceived as fair, they must be derived from a decision-making process that is viewed as fair.



Story: Does fair always mean equal?

- ❖ Imagine this: Mom and dad had started a company nearly 50 years ago. Other than their company, they owned a significant amount of raw land. The company and the land were both valued at almost 800,000 EUR. They had raised two children, a son and a daughter. The son began working in the company right out of school and eventually became the company's President. The daughter decided not to join the company.
- ❖ How to treat their children fairly in the succession planning?

Solution 1

- Parents will split up their assets 50/50 equally between the two children regardless of their roles in the business. That means the son who is working in the business will have to share the decision making and the profits of the business with his sister who has no involvement. That may be equal but it certainly is not fair. Rather, such decision seems unfair to the son.

Solution 2

- Parents will pass their business down to the son which seems fair to do. But they worry that if they give the business to the son, then they will not have any means to treat their daughter equally which seemed unfair to her.

Story: Does fair always mean equal?

Solution 3

- The consultant suggested to give the business to the son and the land to the daughter. This way, the division is nearly perfectly equal.
- However, mum considered it unfair — for both of her children. As she explained, the land was undeveloped, pristine forest and grassland. They used it for hunting and camping. Everyone in the family hoped to keep it for generations to come. Giving the land to the daughter was not providing her with any wealth or income, on the contrary, they were giving her an annual property tax bill. Compared to the company, the land was a financial burden. That was not fair to the daughter.
- As for the son, giving him the business seemed the right thing to do. However, the parents appreciated that even though the company was profitable and generated wealth, it was inherently risky. The company could one day be diminished or worthless through no fault of the son. In contrast, the land would always exist and likely have at least some value. Furthermore, they wanted the son and his heirs to also enjoy the use of the land, without forever needing to ask anybody for permission.
- For these reasons, giving the son the company and the daughter the land seemed entirely unfair.

Conclusion: Fair does not always mean equal

In Family-Owned Businesses, Equal is Not Fair and Fair is Not Equal.

- „Fair“ is a perception and „equal“ is a mathematical calculation.

Focus on Fair, not Equal.

- Shares can be different but still fair.
- Treat family members fairly, not equally.

There is no one-size-fits-all solution for family businesses. Family businesses are often full of unique contradictions and complexities.

- E. g. more children, multiple children work in the family business, no significant assets outside the business, bad relationships.
- People are different, assets are different too.

Kim, W., & Mauborgne, R. (1997)

What is fair process?

- ❖ Fair process allows to find solutions that are more likely to be seen as “fair” by everybody involved.
- ❖ The key to fair process is engaging in the dialogue and the process.
 - ❖ Finding the balance between fair and equal and the path to achieving that requires the family to engage together.
 - ❖ Conversations about succession planning are challenging - to accept your own mortality, discuss dreams and goals of all involved people, respect significant emotional attachment to the business.



„Give each person what he or she deserves.“

Walsh T.G. (2016)

Differences between fair and unfair succession process

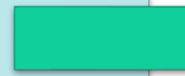
Fair process

- Harmony
- Certainty
- Satisfaction
- Trust
- Better business performance

Unfair process

- Conflicts in the future
- Revenge
- Resignation
- Destruction of family relationships
- Termination of business

- ❖ It's imperative to have open and transparent conversations with family members and family business succession planning teams in order to come up with effective succession plans that account for everyone involved.



„3E“ principles of fair succession process

A fair succession process is based on three mutually reinforcing principles that must always be kept in mind.

Engagement

- Refers to involving individuals in decisions that affect them by listening to their views and genuinely taking their opinions into account.
- Provides a sense of confidence that their opinions have been considered.
- Open communication and trust is necessary.

Explanation

- Explanation requires taking care to explain the reasoning behind a decision to everyone who has been involved or who is affected by it.
- Clarity of information and of the succession process.

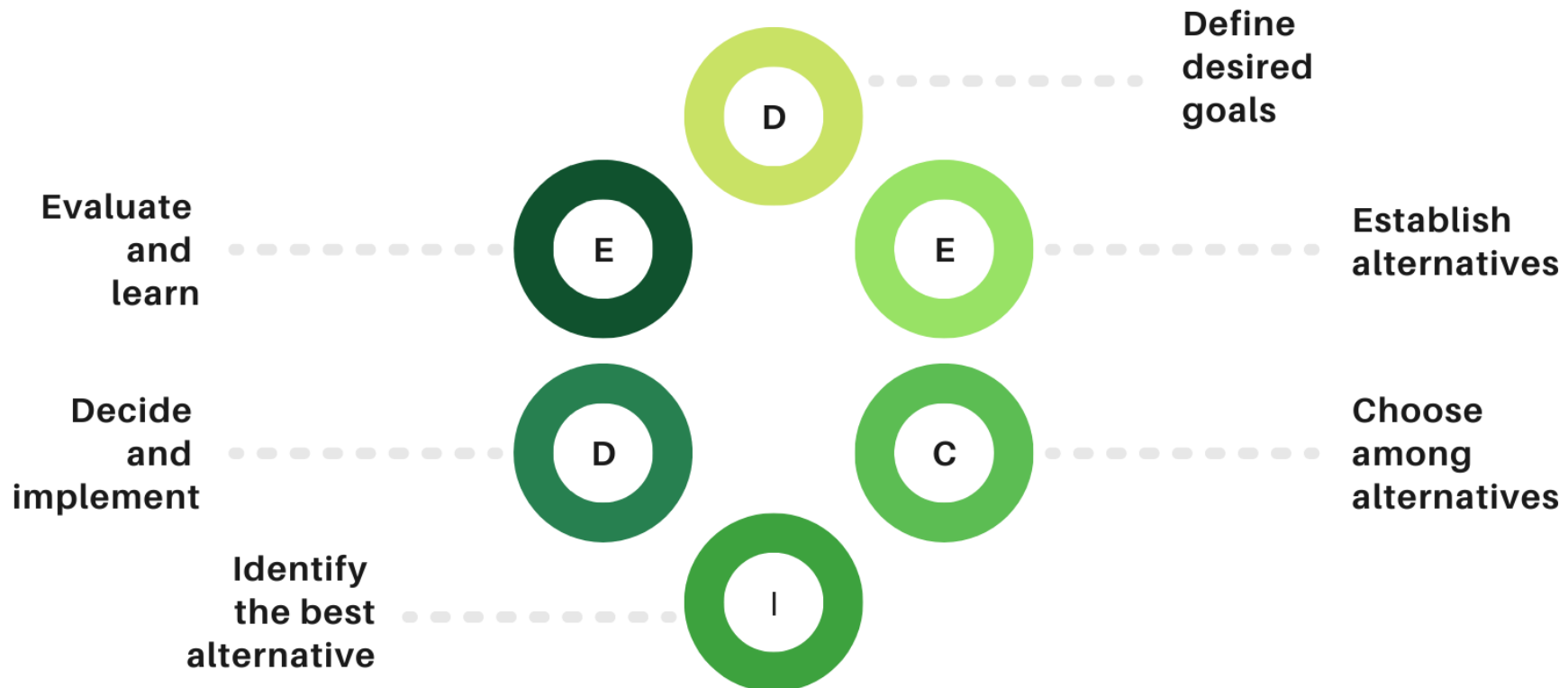
Expectations

- Expectation clarity involves making sure that everyone clearly understands a decision and what is expected of them in the future.
- Predictability of decision making and consistency across people, over time, and with agreed values and norms is important.

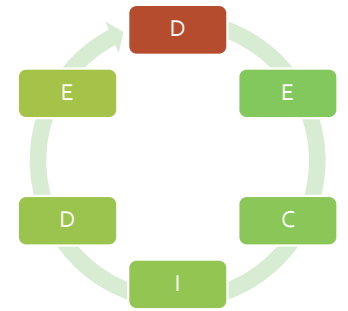
Van der Heyden, L., Blondel, C., & Carlock, R. S. (2005); Duggal, J. (2018)

DECIDE model: 6 steps of fair process

The DECIDE model is the acronym of 6 particular steps needed in the fair succession process. It is a tool to make efficient, informed and effective decision about succession. It consists of 6 activities, each of them are introduced in details on next slides.



Step 1: Define desired goals



Guiding questions for Step 1

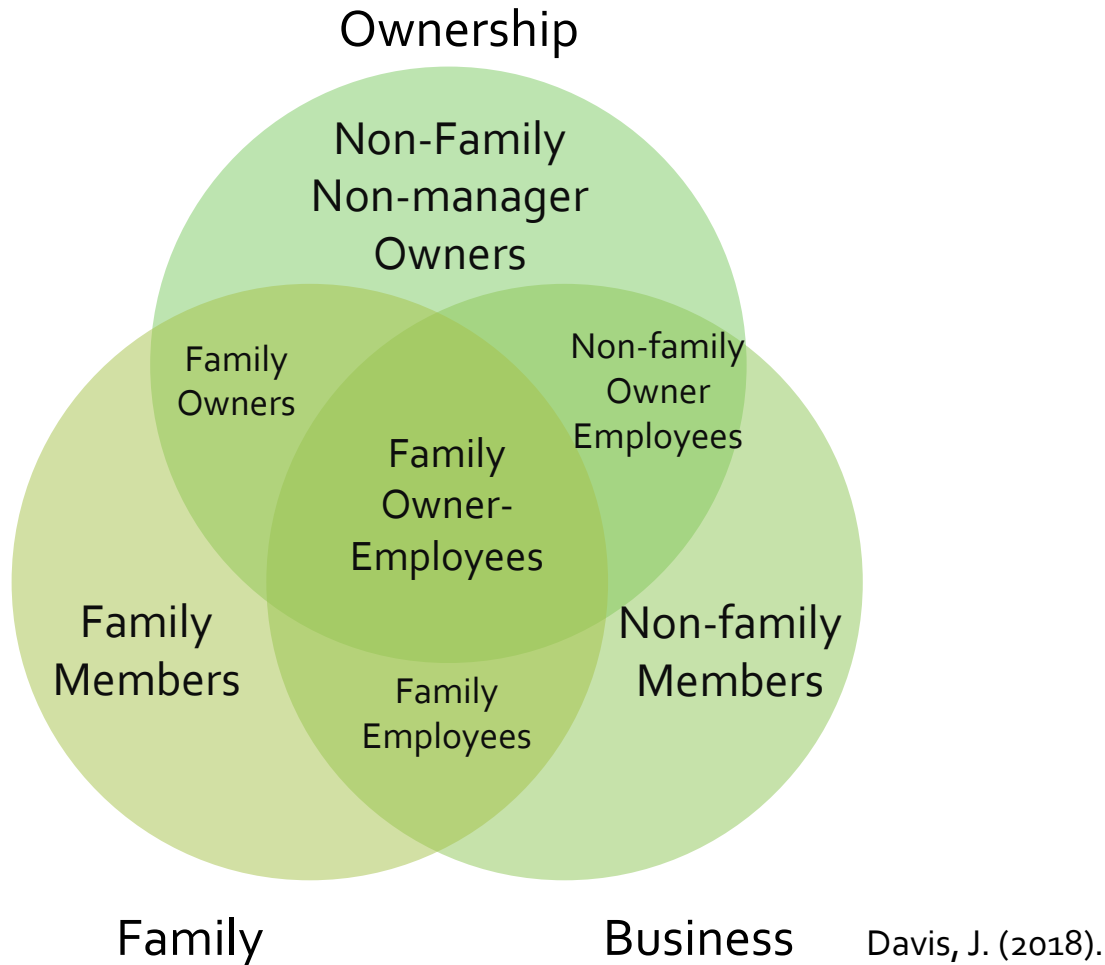
- What is the main goal of succession process?
- Who to involve in decision-making because it concerns him?
- What are the business goal(s)?
- What are the personal goals and expectations of interest groups?
- What criteria must be met by the optimal solution?

Useful tools to help you set your goals

- „Three-Circle model of the family business system“ to identify all interest groups. (Davis, 2018)
- „SMART goal“ to set the meaningful goal of the succession process. (Locke & Latham, 1990)

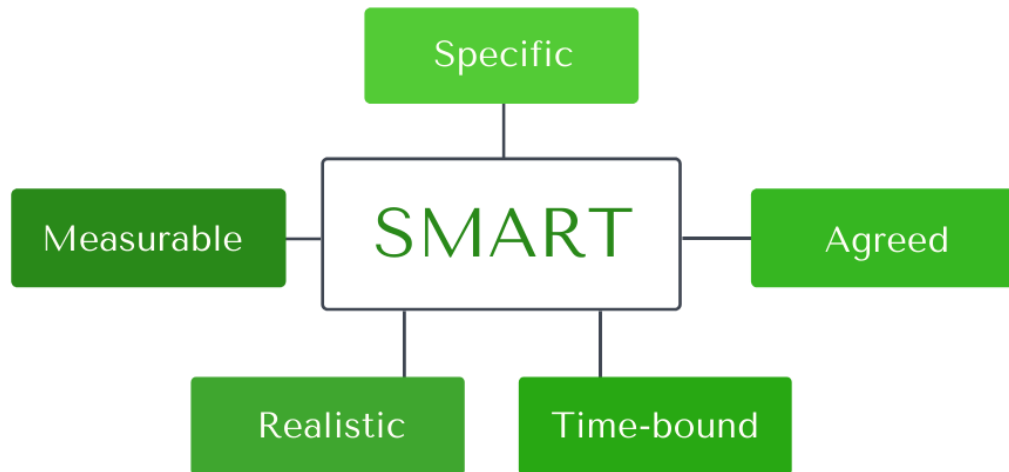
Step 1: Define desired goals

Three-Circle model of the family business system



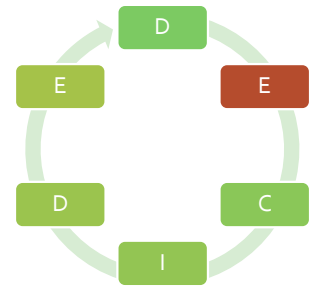
- ❖ The first tool to help you set your goals through identifying all interest groups of the family business is the **Three-Circle model**.
- ❖ The Model reminds you that views, goals and concerns of each sector are legitimate and deserve to be respected in order to set fair process of succession.
- ❖ The long-term success of family business depends on the functioning and mutual support of each of these groups.
- ❖ People are different and thus no two people are equal - trying to treat people who are not identical equally usually ends up being unfair.
- ❖ **Create your own company's model** – write in the circles who is included in each part and think of the groups' interests.

Step 1: Define desired goals SMART goals



- ❖ The acronym **SMART** stands for the five criteria which smart goals of fair process must meet.
- ❖ This tool helps to create a set of well-defined objectives according to the needs and objectives of interest groups and evaluation criteria which will become a framework for comparing and selecting alternative solutions.
- ❖ When you think of your goals, they should meet these criteria in order to have significantly greater chance of being accomplished.

Step 2: Establish alternatives



Guiding notes for Step 2

- In order to be successful, you should discover as many alternative solutions and ways and choose the one which suits you the best.
- The goal is to generate as many available options as possible.
- Good solutions are not possible without good alternatives.

Useful tool

- „Brainstorming“ for identifying alternatives. (Rawlinson, 2017)

Step 2: Establish alternatives Brainstorming

- ❖ Brainstorming is a group decision making technique and its goal is to generate as many ideas as possible.
- ❖ This technique doesn't provide a solution or decision itself. It produces a list of ideas that will later be considered, discussed and evaluated when it is time to reach a final decision.
- ❖ Doing brainstorming with you family or colleagues can help to ensure that all interest groups are engaged in defining the issues, identifying solutions and implementing agreements.



Remember, it is also fun so it can be a great activity for your team building.

Step 2: Establish alternatives

Ground rules of brainstorming

Identify goal

Invite a diverse group of people

Set a time limit

Generate as many options as possible

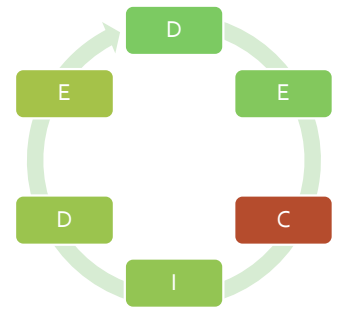
Equal opportunity to participate

No criticism is allowed

Record all ideas

Let the ideas incubate

Step 3: Choose among alternatives



Guiding notes for Step 3

- After you identified and brainstormed all your alternatives, narrow them down and prioritize them.
- Alternatives should be carefully evaluated in terms of their estimated consequences and established criteria.

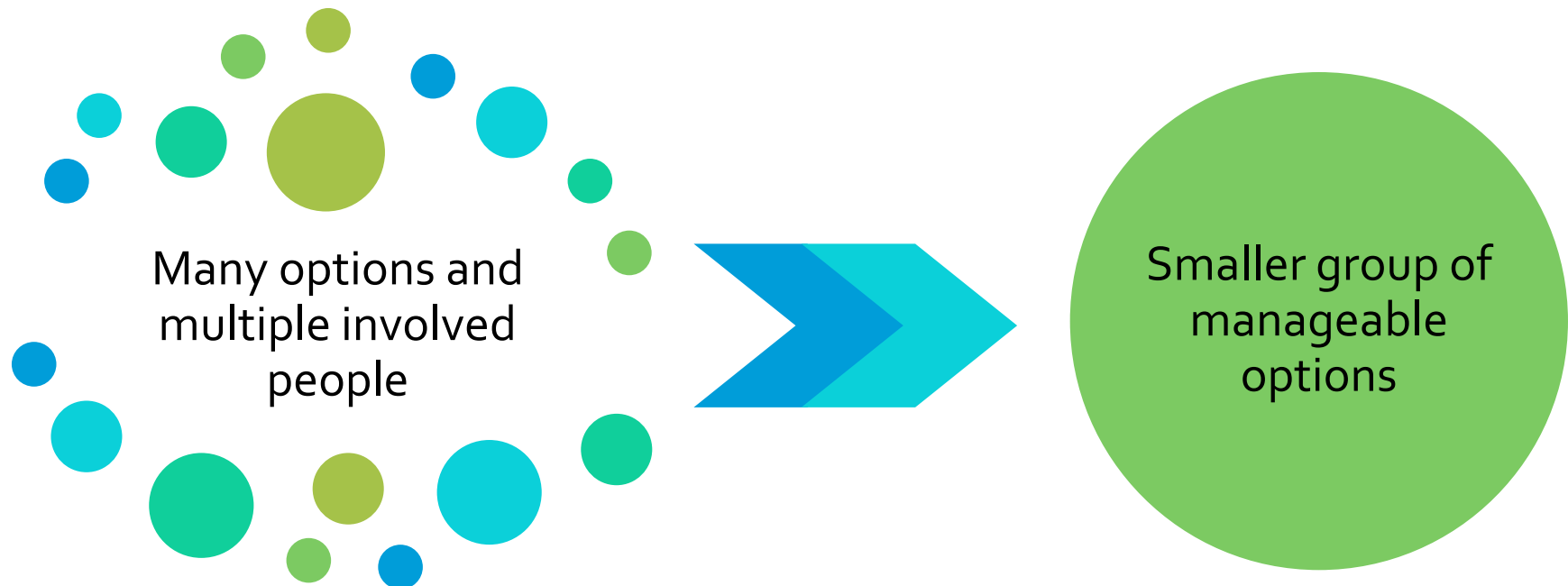
Useful tool

- Multivoting (Villarreal & Kleiner, 1997)

Step 3: Choose among alternatives

Multivoting

The method of **multivoting** is a group-decision-making technique that can help you choose between options as a team. It is used for reducing long lists of options or items to a manageable few. It helps particularly when the differences between options are rather subjective.



Step 3: Choose among alternatives

Multivoting steps

Step 1: Vote

- Each group member votes for maximal one third of the number of available options.

Step 2: Tally the votes

- Count down all votes of from all voters / members

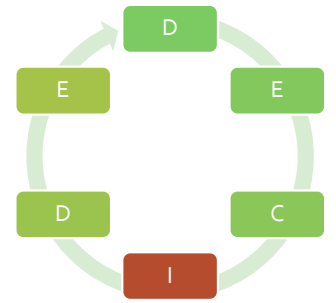
Step 3: Eliminate options

- Depending on the number of participants:
- < 5 members: Eliminate options with < 2 votes,
- 6 to 15 members: Eliminate options with < 3 votes,
- >15 members: Eliminate options with < 4 votes.

Step 4: Repeat the process

- Repeat the elimination process until you have one, two or max. three items.

Step 4: Identify the best alternative



Guiding notes for Step 4

- Consider true and effective alternatives.
- Evaluate the implications for the different alternatives.
- Consider relevant facts and uncertainties and their effect on the decision outcome.
- Choose the solution that best matches your criteria.

Useful tools

- "Table of pros and cons" for a simple comparison of selected alternatives.
- „Decision Matrix Analysis“ (Mulder, 2018)

Step 4: Identify the best alternative

Pros and cons chart

- ❖ Pros and cons charts are a very simple and easy-to-use tool.
- ❖ They are used to compare the specific advantages and disadvantages of each of your top two or three choices.
- ❖ For the options you have listed, identify the specific pros and cons of each and see which options suits your business better.



Step 4: Identify the best alternative

Decision Matrix

- ❖ Decision Matrix is a similar tool to the pros/cons chart.
- ❖ It helps you whittle down a large list of options to a smaller group in the final decision.
- ❖ It allows you to place a level of importance on each factor and accurately weigh the different options against each other.

Criteria	Weighting	Criteria A		Criteria B		Criteria C		Criteria D	
		Score	Weighted score	Score	Weighted score	Score	Weighted score	Score	Weighted score
Variant 1	5	3	15	5	25	2	10	4	20
Variant 2	4	4	16	2	8	5	20	4	16
Variant 3	4	5	20	3	12	5	20	3	12
Variant 4	2	4	8	4	8	4	8	3	6
Variant 5	2	3	6	3	6	5	10	5	10
Total			65		59		68		64

Norm explanation
 0 = not important
 1 = a little
 2 = mediocre
 3 = neutral
 4 = important
 5 = very important

Degree of satisfaction
 0 = not at all
 1 = a little
 2 = inadequate
 3 = a little
 4 = a lot
 5 = excellent

Best option (Criteria C)
 Option with the highest total score

Step 4: Identify the best alternative

Steps of Decision Matrix Analysis

Drawing the matrix

- All criteria in the rows
- All options in the columns

Assigning scores to each option

- 5 - very good
- 1 - very bad

Determining weightings to different factors

- 5 - very important factor
- 1 - least important factor

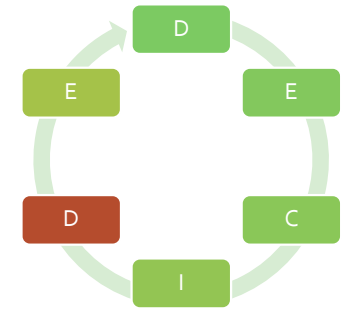
The choice with the highest score wins

Calculate final scores

Calculate weighted scores

- ❖ To create your own Decision Matrix Analysis, first create a table with all the options in the first column and all the factors that affect the decision in the first row.
- ❖ Score each option and weigh which factors are of more importance.
- ❖ A final score is then tallied to reveal which option is the best.

Step 5: Decide and implement



Guiding notes for Step 5

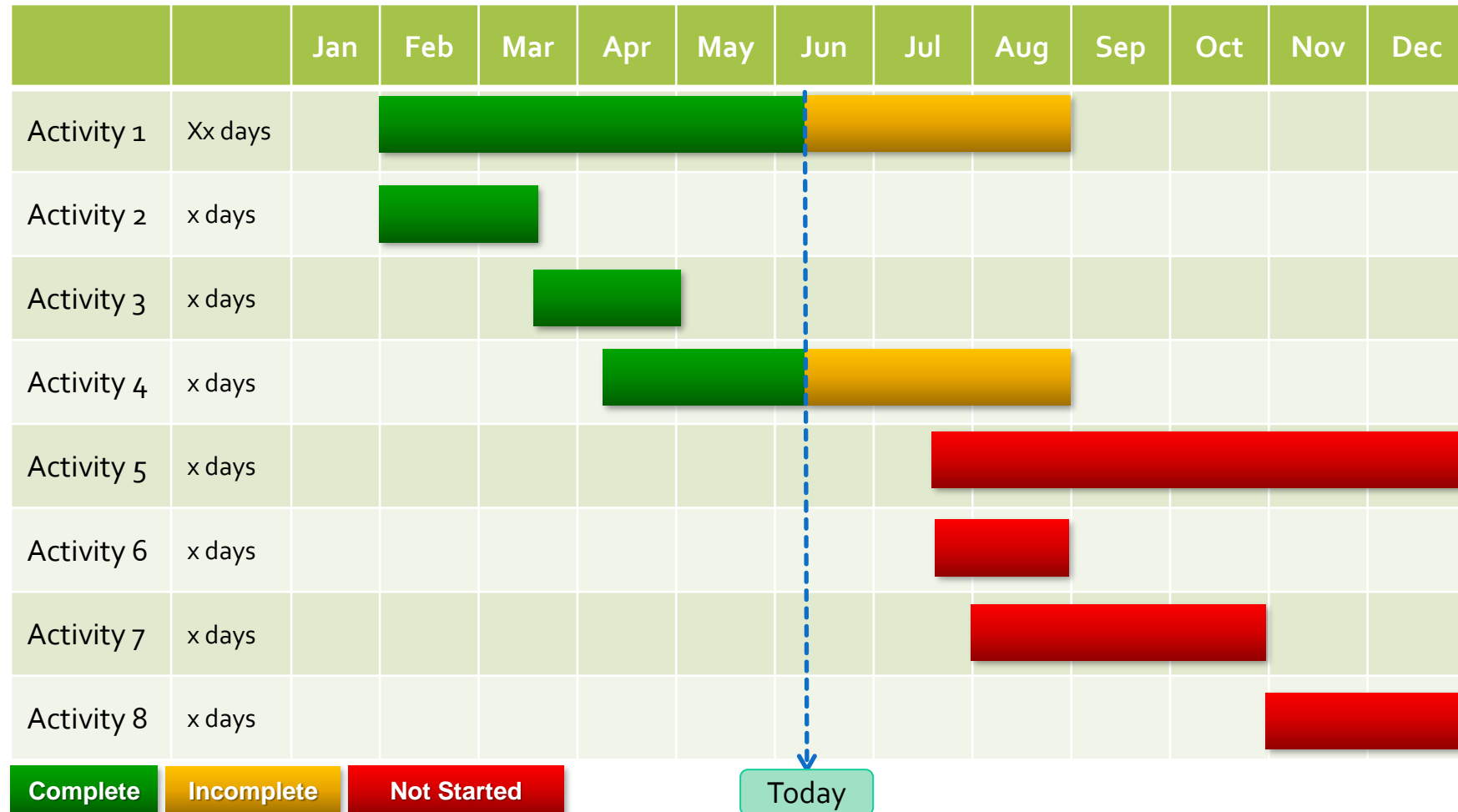
- The active communication process involves all individuals who will be affected by the plan.
 - Clearly articulate the direction.
 - Develop an action plan with next steps and timelines for each task.
 - *“People ought to do what they say, and also ought to say what they do.”* (Carlock, 2005)
- Share the news - Informed stakeholders will be more likely satisfied in the future.

Useful tool

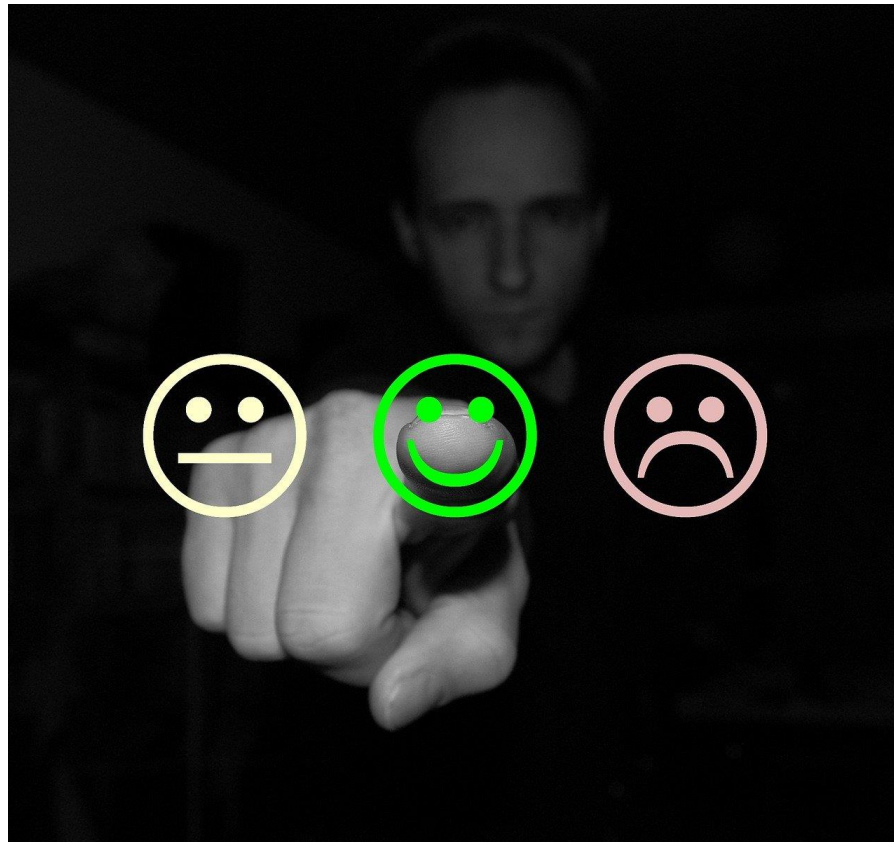
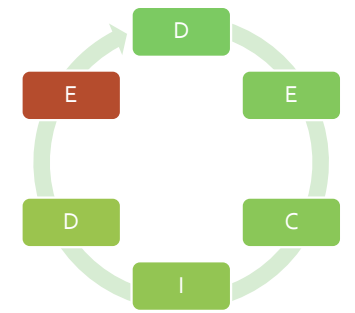
- „Gantt chart“ shows what work is scheduled to be done on a specific day. (Gantt & Adamiecki, 2015)

Step 5: Decide and implement Gantt chart

Gantt chart is a bar chart that provides a visual view of tasks scheduled over time – completed, tasks in progress and yet to be done. It can be easily done in Excel or by various online tools available on the internet.



Step 6: Evaluate and learn



- ❖ Finally, improve and learn from experience.
- ❖ Today's decision will benefit from the lessons of past decisions.
- ❖ Keep open communication after careful planning, once you roll out your plans for the family and nonfamily members.
- ❖ It is important to continually assess the outcome of the decision to ensure things are unfolding as desired.

Conclusion

Well-formulated decision making process is effective in producing fair decisions.

All steps are essential and deserve full attention.

People will respect the decision and the rules if they believe the process was fair.

Tools exist for each step (Russo & Schoemaker, 2002).

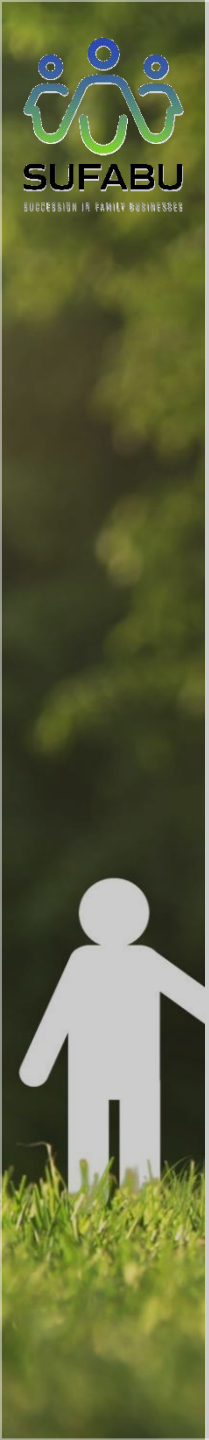


REMEMBER:
Fair process of succession is the
key to the survival and
development
of family businesses.



Sources

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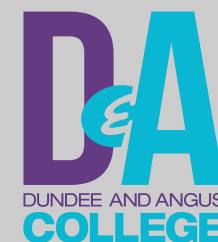
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