BEST PRACTICE GUIDE

Succession in family business

A BEST PRACTICE GUIDE FOR BUSINESSES AND SHAREHOLDERS ON HOW TO HANDLE SUCCESSION

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Content

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A best practice guide for businesses and shareholders on how to handle succession

A preliminary note

Every family business is unique. Successful measures taken in one business are not necessarily successful in others. Each family is unique as well; no two family constellations are exactly the same. Every succession therefore requires due consideration of the traditions and particular context of the firm and the family. A one-size-fits-all approach is not available.

However, despite specific constellations, all succession processes involve questions to which each owning family should find their unique response. This best practice guide has no formulas to be implemented as they stand; it provides valuable stimuli and suggestions how to find individual solutions. The guide comprises three parts:

- Part I basically recommends considerations on succession as a continuous process that can be illustrated in nine phases.
- Part II gives advice – in the form of concise invitations – on how to handle typical issues involved in succession.
- Part III presents a summarized example of a typical succession process over time.

This best practice guide sums up insights and outcomes from 15 years of WIFU research on succession. The authors aim to provide valuable assistance to owner families and family businesses in coping with an issue of essential importance for the survival of the business.

We hope you will find reading this guide an instructive and stimulating experience.

Witten, August 2013

Torsten Groth, Dr. Tom A. Rüsen,
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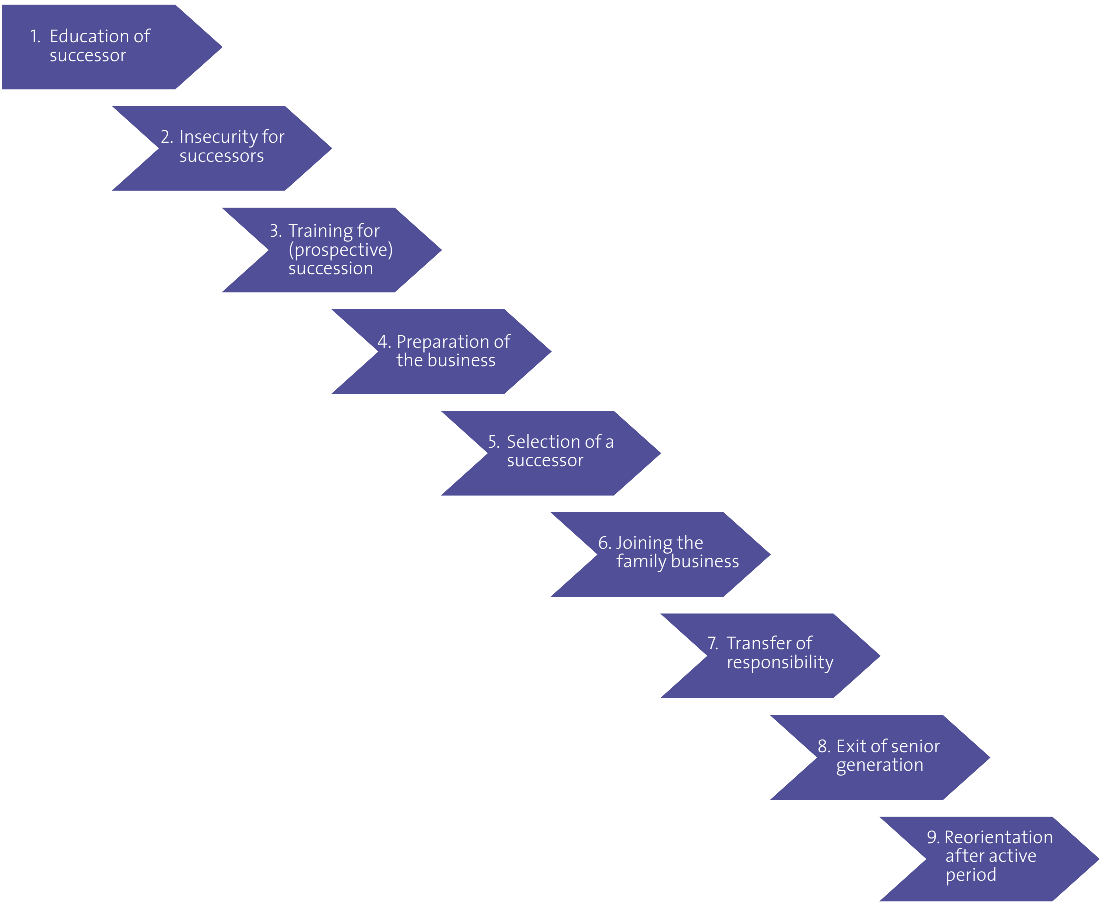
I. Succession as a continuous process

The term succession is often understood as the decision to hand over the management of a business: Who hands over the “baton” to whom on a specified day, and what are the circumstances of the handover? This common perception overlooks the fact that succession is not limited to the management of an enterprise but also involves a transfer of shares (cf. II.3). Most of all, however, the reduction to a handover decision neglects many succession-related dynamics in owner families which have influenced the life of family members long before the transition and will continue to do so. It is more reasonable and effective to perceive succession as an on-going (communicative) process. The process begins as soon as children are born and the owning family starts thinking about handing over the business to the next generation. An end of this process is almost impossible to define. Succession is an issue for the business and the family all the time. As long as the (owner) family exerts a certain influence on a business, as long as we speak of a family business, the family should reflect on selected aspects of succession on a continuous basis.

An approach which proves well in practice is to differentiate between nine relevant phases of the succession process[1]:



1 _ The presented phase model constitutes an expansion of the Witten phase model of succession; cf. Schlippe/Groth/Rüsen (2012).

I. Succession as a continuous process

Specific areas in need of clarification will emerge at each stage of the entire process, on the family side as well as in the firm.

1st phase: Education of successors

(Succeeding generation, mainly age 4 to 16)

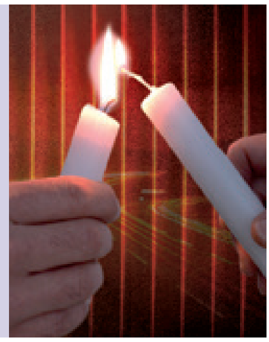
Not so easy to bring up a Successor!

Preparation for succession starts at an early age. Even before children at school start mentioning (and also comparing) what their parents do for a living, it is important to give children a sense of security and awareness of what it means to grow up in an owning family – all the more if the business is in the public focus and the children bear the same name as the business. In a manner appropriate to the children's age they should be familiarized with the business and its specific features, but without any pressure to follow in their parents' footsteps. Under no circumstances should children be watched too early (at school or while playing) for signs of qualities that might come in useful for a career with the company.

We also observe other parents, wishing to protect their children, doing their best to keep them away from the family firm. The intention is to see the next generation grow up "free" and unburdened by the preconceptions and expectations related to the family business. It must be kept in mind, however, that the message sent to the children is rather ambivalent in such cases: initially they are kept away from issues which later are to influence and shape their life. How to develop a healthy relation to something you had to be protected from? In addition, it is not easy to keep up this artificial attitude. This applies in particular to owner families where some members live near the business, where the business name is the same as or similar to the family name, and where one or both parents are involved in operations with immediate impact on everyday family life (e.g. if the planned summer holiday has to be cancelled at short notice due to a technical emergency in the firm, or a customer visit prevents a parent from attending a school performance).

Children in owner families often perceive the business as a kind of "sibling" with which they have to compete for time and attention on a regular basis. The multiple and complex requirements of the business tend to cause shortages in communication in other areas of family life (nursery, school, homework etc.). In addition, developments in the firm frequently influence the emotional state of parents, grandparents or other close relatives. Attempts to keep this key influential factor on family dynamics away from communication within the family may even cause aversions to the "unknown".

Consequently, parents should try to find a balance in raising their young children: without a fixation on succession, but with the clear intention to familiarize them with the business and the benefits of a potential succession.



2nd phase: Insecurity for successors

(Succeeding generation, age 12 to 20)

Overlapping with the first stage, in which parents set an example for their children in living the life of entrepreneurs with the privileges and requirements involved, a second phase starts where children develop their own attitude towards the business and succession. The typical search processes of adolescents between ambitions of autonomy and bonding needs will also be "acted out" in succession scenarios during this stage. Times of great consent ("I'll start in the business – I'll do the same thing as my parents!") frequently alternate with times of strong and impulsively expressed opposition ("I'll never do what you want from me – I'll have my own life!"). During this emotionally challenging development stage of children and adolescents it is important that both generations stay in touch.

Parents must above all remember to re-interpret both excessive enthusiasm for, and opposition to, succession as mere learning stages. Young people in their puberty need to try out independence and thus learn skills that are important for an entrepreneurial mindset later in life. During this period the offspring's attempts at autonomy may take the form of vehement opposition to parental suggestions they might follow into the family business. However, there can be found consolation in the thought that – in the light of experience – the decision will not be definite, nor necessarily valid ten years from now. Therefore the challenge for the owning family during this phase is to lay the groundwork for the learning phase. On this basis, young people may then form a position on the succession issue. The basic attitude must come from within the young person himself or herself but may be stimulated or promoted by parents. At the same time an excess of parental expectations should be avoided.

Early consent to succession does not guarantee that the succession issue has been resolved once and for all. Temporary opposition may be indicative of a maturing process that facilitates a more deliberate consent to succession at a later time. Sometimes it might be easier to say "Yes" after having said a clear "No" – this might be the way of really "owning" the decision.

I. Succession as a continuous process

3rd phase: Training for (prospective) succession

(Succeeding generation, age 16 to 30)

Feelings of ambivalence stay with many successors while in training. The key question in this phase is to what extent a training course or university degree programme should be aligned to a career in the family business, or whether it is permitted and acceptable to choose a field of study according to personal preferences. Parents above all are well advised not to overestimate the relevance of this choice. The aim should be to ensure that the choice of an education does not confirm an inner aversion to succession ("I'll be an artist!" – less because of an artistic talent but rather to irritate father or mother) that stems from the younger age of phase 2. Even seemingly incongruous career directions and unconventional biographies may provide options to enter the family firm at a later time if combined with subject-related further training and business experience.

Ideally, potential successors choose formats of training or study fields that match their inclinations, prepare for succession, and at the same time provide options for further professional goals within and outside the family firm.

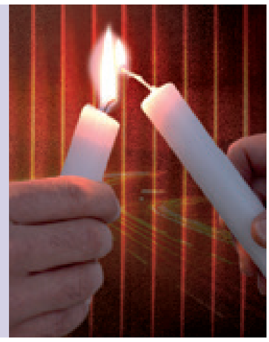
It is helpful for all concerned to communicate training criteria for succession and entry scenarios to all participants at an early stage, to facilitate an alignment of criteria with the choice of education.

4th phase: Preparation of the business

(Senior generation, approx. age 55)

Having reached the middle of the 5th decade of life – at the latest – the time has come for the senior generation to prepare the business for a handover. Unless already done, management structures must be developed that make the family business independent of the current family management. The stronger the self-management of the company, the more independent is the second management level in their competence and autonomy to take important corporate decisions. Therefore it will help a family member in his or her decision whether to assume managerial responsibility or not. Should the internal succession fail it would also have the advantage that the existing management is safely established and that the owning family would not have to fear serious consequences. Hence the succeeding generation has not to act under pressure ("If you don't join the firm, there will be nobody else to take over ...").

Part of the preparation is an evaluation of major pending steps such as innovation, growth strategies, or measures to boost internationalization. Such developments should be decoupled as much as possible from the succession issue (cf. phase 6); the idea must be to free the next generation from the necessity of radical change during their running-in period when they are still consolidating their position.



5th phase: Selection of a successor

(Succeeding generation, age 20 to 35)

Before the next generation joins the family business, the owning family needs to agree on conditions of entry and exit respectively. Typically, the relevant criteria are defined in the family constitution or in the shareholder agreement as part of the family strategy; mostly external experts are engaged to assess existing competences. It is necessary to define expected skills and expertise (such as level of education, managerial experience acquired in external companies) and requirement profiles for specific positions (division manager, managing director). This clear profile is helpful not only for family shareholders to decide on succession on the basis of competence criteria and not on parentage; it also enables the successor generation to precisely estimate the achievements and experience required, and the possible consequences if these requirements are not met. If it becomes apparent that a candidate is unable to fulfil defined requirements then the chances are better to avoid conflict when this person leaves the company at a later time.

The guiding principle for the owning family during this phase must be to create structures that relieve the family from the responsibility to decide alone on family members' competences and suitability.

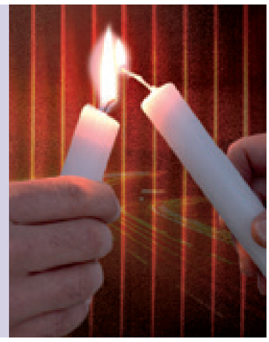
I. Succession as a continuous process

6th phase: Joining the family business

(Succeeding generation, age 20 to 35)

As soon as all concerned parties have agreed on a specific family member to succeed in the family business, the entry of this successor into the firm and his or her "way to the top" must be carefully planned. All learning stages the junior member goes through should be considered as elements of a roughly drafted career path; all involved should know why or how long the successor is active in this or that division, directs a subsidiary, and so on. The schedule clearly describes what the senior and the junior generation expect of each other. If expectations are not met then consequences must be demanded from all parties involved. Due reflection upon conclusion of each career step will make it easier either to take the next step or leave the company without "loss of face". Less recommendable, however, is to let the children just "slip into" the business without defined functions, without an office of their own and for an indefinite period, in some cases for years. This entails the risk that the status of a child is transferred from the family context to the business (cf. II.7). Frequently, potential successors accept such planless employment only because they hope for a chance "to be noticed". Typically, none of them would accept a comparable situation in an external business. Successors who join the family business without a fixed agreement often trust the family "to find a good solution". They face the great risk of reaching their mid-thirties with poor chances on the labour market, without any substantial work experience. A job in the family business remains their only alternative. The term used in the literature for this situation is the "successor's trap".

It is therefore advisable to avoid supposed "learning phases" that continue for long periods without genuine promotion prospects and as a consequence assign the role of "eternal junior" to the successor.



7[th] phase: Transfer of responsibility

(Both generations in management positions)

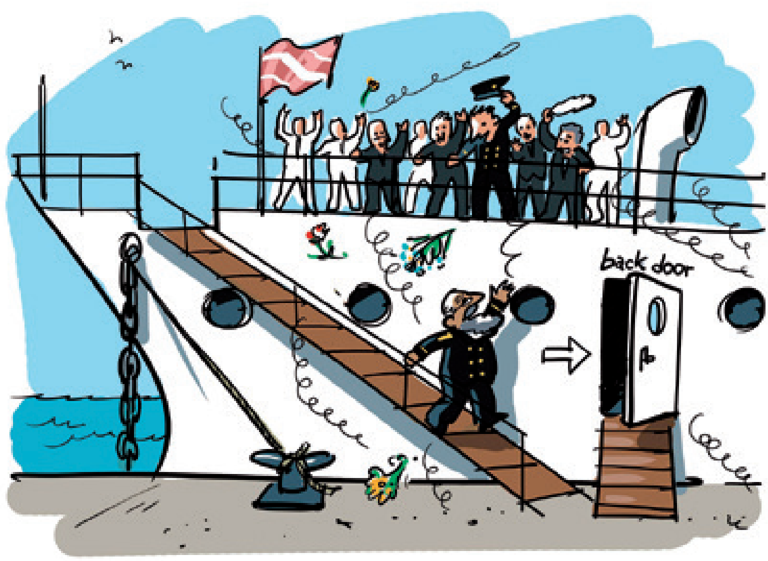
In the course of the succession process there will be longer stages when both generations are on board. This time of joint responsibility often places great demands on all concerned. The specific role of each family member in the operational business must be clearly defined and communicated to the staff for general reliability of expectations. Where both generations are active in business they always represent a parent-child constellation, with one person being far more experienced than the other. The young generation, on the other hand, may stand for renewal, a move away from patriarchal management style, and so on. This unequal pair is confronted with a multitude of concerns and fears, hopes and wishes in the context of the business which put their solidarity to the test. Unless both generations come to an agreement, the workforce may split up and individual groups declare their solidarity with "their own" generation, depending on what interests might be at stake.

The senior generation in particular is called upon to make it unmistakably clear that decisions are a shared responsibility, even if they no longer correspond to the "old" regime.

I. Succession as a continuous process

8th phase: Sole responsibility and exit of the senior generation

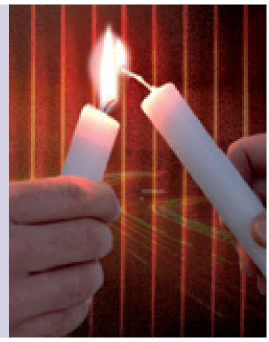
(Leaving generation, approx. age 60; incoming generation, age 35+)



The main focus in this phase of the succession process is on the senior generation. They have dominated the firm for decades and left their stamp, been the only "bosses" most of the staff has ever known. The definite change in management must be clearly highlighted and communicated outside and inside the company, symbolically (e.g. passing the baton at a meeting of the workforce, switch of offices) as well as in daily operations: Who has the final say? To whom do employees turn with their worries and concerns? Staff contacting the "old" boss from habit should be explicitly referred to the new management.

Another point to be clarified is the future role and function of seniors in the firm: do they retire once and for all, do they act as advisers (possibly in an official capacity on the advisory board), or are there areas of competence where they are indispensable? There is no formula for a successful transition to the post-active stage. Positive as well as negative examples are known from all possible constellations. A clear role allocation should be communicated inside and outside the business, so that a position of secondary importance assigned to the former manager will not become a "back door" for his/her return and enable him/her to continue things in the same old way.

The key task for the leaving generation is to work on a new definition of their private lives which many of them neglected in favour of business commitments.



9th phase: Reorientation after active period
(With exit of senior generation)

Nothing left but golf, after 40 years in business?

Following the transfer of managerial responsibility to the successors, the leaving generation is confronted with a completely different phase of life. Relieved from the pressures of work and responsibility, they must learn to make "good use" of their time as a newly-won commodity. If predecessors have no alternative engagements, such as volunteer work for non-profit institutions, business angel for start-ups or university lecturer, or if they have no time-consuming hobby, the temptation will be strong to "slide back" into the family business and interfere in decision-making. Formal reasons often given to justify such interference are undesired business developments to be answered for by the younger generation. The true reason, however, is a senior's "need to be needed" – which is understandable after more than 30 years of relentless pressure in many cases. For most seniors, sailing trips and rounds on the golf course quickly lose their appeal. If seniors are not occupied with alternative activities or engagements, they often welcome perceived negative developments in the family business as justification to get fully engaged again.

But there are situations where a predecessor's intervention may actually be of substantial assistance to a business developing along misguided lines. Such cases reveal that a senior has obviously come to terms with his or her own issues in life and now assesses the position of the company objectively and not from a perspective of personal need. There is no way around what the literature calls "consciousness raising". Experience shows that this works best in conversation – with friends in similar situations, with persons who are well informed about the firm and the family and can give disinterested advice; coaching may also be an option.

Here the family is called upon to systematically keep an eye on such "relapses" and remain in critical dialogue with the predecessor generation. This will help to keep up the senior generation's entrepreneurial energies and put them to good use.

I. Succession as a continuous process

Summary

Perceiving succession as a process and observing the nine phases with their respective specific requirements makes in our opinion an important contribution to raising “consciousness” over long periods. This awareness may be described as the major “success factor” for succession. Such a process view increases the likelihood that all individuals and generations involved will remain in dialogue about their wishes, expectations, inclinations etc. during all stages of life and career without losing sight of the company’s best interests.

II. 10 tips on how to handle succession within the family firm

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

1. Address the issue of succession!

The thought of succession raises all kinds of concerns, fears and expectations in all persons involved, frequently with the consequence that the handover is delayed, whether consciously or not. In most cases the main reason is less the widely discussed reluctance on the part of the senior generation to relinquish operational responsibility, but rather the parents' concern to avoid mistakes and not to disappoint any family members. There is also a psychological dimension to this, at least for the older generation: addressing succession means facing the finiteness of their own lives.

The junior generation bears part of the blame for avoiding the subject of succession: they shy away from the issue and from argument with the senior generation, from uncertainty whether they are equal to the challenge, or from fear of losing their independence.

As a result of these unconscious avoidance strategies, the subject of succession – while present in the minds of the generations involved – remains undiscussed in many family businesses; there is no exchange of views. This mutual reluctance is understandable but not very helpful. The time will come when the issue must be addressed and open questions must be put "on the table". And remember: avoiding decisions becomes a decision in itself, the decision against succession.

If, as described in part I, succession is perceived as a process and thereby an on-going assignment of reflection, to be discussed jointly by all persons involved in their respective stages in life, then the decision for succession will lose its existential severity. Now the parents are no longer forced to think hard about succession and decide alone; nor are the children forced to speak up on a given day and say Yes or No. Options and solution scenarios can be permitted to develop over years, to be assessed for their merits and downsides, and criteria can be applied that take the business, the family or personal attitudes and sensitivities into account.

2. Differentiate between succession on the shareholder side and in the operational business!

The business is in the focus of attention and makes demands on the management on a daily basis. So it comes as no surprise that "succession" is often understood to refer to the handover of operational management only. This focus, however, must not result in the shareholder succession being marginalized. The shareholders build the company's backbone, they must take or support strategic decisions of far-reaching impact, develop shareholder competence, either 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 identification. Typical misdevelopments are impasse situations between siblings or family clans, or shareholders mainly interested in dividends and less in corporate development, or patriarchs who go on dominating operations although having formally handed over their shares, and so on.

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 vulnerable in generating 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. It contributes not only additional expertise but 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.[2]

3. Consider the financial, inheritance and tax law related implications![3]

Succession regulations are heavily influenced by issues related to tax and inheritance law. Reflections on a suitable successor to the executive management and on possible constellations of ownership transfer should move in parallel with a clarification of issues related to finances, tax and inheritance law. The following questions are of high importance:

- Will there be an anticipated inheritance?
- Will other siblings be entitled to compensation (reserved portion), or will a waiver be required?
- Is provision for old age intended to be part of succession arrangements, and what are the details?
- Which tax allowances apply?
- Will it be necessary to amend the shareholder agreement? etc.

Statutory regulations and requirements are constantly changing and so complex that it is advisable to seek professional advice at an early stage.

Fiscal and legal aspects, although very relevant, should not be the only criteria for action. The objective must be to find a balance between family dynamics and individual needs.

4. Focus on the business (separately from the family)!

Family firms are characterized by very close and mainly positive interaction between family and business. The family makes the big difference compared to 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, e.g., decisions relevant to the survival of the firm are avoided because they might affect individual family members or endanger the harmony in the family. 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 constellation?
- Which strategic and operative challenges would crop up in this case?

Clear answers to these questions, under deliberate exclusion of family as a factor in the picture, may also facilitate the search for a succession scenario.

2 _ For further details see Schlippe/Groth/Plate (2001) and Rüsen/Groth/Schlippe (2012).

3 _ For further details see WIFU Praxisleitfaden 9 – Familienunternehmen und Erbschaftssteuer (family business and inheritance tax).

The idea is not to eliminate or ignore the family. The purpose is a critical scrutiny of the situation for any underlying family-related considerations that only serve to maintain family harmony but are not in the interest of the business.

Time and again, we find that only those family firms survive for several generations who – in 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)!

Prioritizing the survival of the business is not the same as complete disregard for the family. Permanent interaction between firm and family is reason enough to reflect on issues related to specifics and characteristics of the family (and 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 prioritize?

Each owning family faces a two-fold task. It is a family that must act for the benefit of the business, and at the same time must not lose sight of the well-being of its members. Family cohesion is a valuable asset and should not be jeopardized 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 persons affected should be aware of the internal dynamics involved and come to a joint decision precisely because of the close ties between family and business.

A decision on succession always means to strike a balance between business necessities and familial needs. It is a major step towards any successful solution scenario to recognize this and act accordingly.

6. Prioritize competence as selection criterion for the succession candidates!

It is not uncommon – and by no means a stain upon the family reputation – for an owning family to have problems finding a successor in their own ranks. Although most business families still prefer successors to come from within the family, only about 50 % can make this wish come true. It is not in the best interest of a business, nor in that of the family, to insist on nominating a family member when none of the young generation shows the required professional and personal aptitude.

Ask yourself the following questions in advance:

- Which competence profile would be expected from an external manager? (Is there a job description for the position to be filled?)
- Would I believe my (family) successor to be suitable if he or she were not a family member?
- Who may serve as a neutral external party in deciding whether a successor is sufficiently qualified and experienced? (Are there any advisory board members outside the family whom everybody accepts? Can the family agree on neutral assessment procedures?)

II. 10 tips on how to handle succession within the family firm

It is more than just an alternative solution to install external managers. They may contribute additional sector-specific expertise, become partners/mentors of (potential) successors, and possibly direct the operative business for a transitional period. Should own children being considered for succession, they should have a level of competence comparable to external candidates in any case.

"Competence first" is the simple rule of thumb for succession. An objective assessment of competences, however, is extremely difficult from the parent and family perspective. It is therefore advisable to consult an advisory board or external experts. The basic principle must be that the family never decides alone on the suitability of family members for positions in the family business.

7. Successors should be free to go their own way in business!

A child's personality starts developing from an early age. Parents in owner families must therefore learn – the same as all other parents – to respect their children as unique and possibly different individuals. Unrealistic expectations of a child's personal and professional development will inevitably produce disappointment on both sides and may cause unnecessary familial conflict. Parents active in a family business should show their love and responsibility in a readiness to accept, support and promote their children's individual inclinations, aptitudes and competences. This includes granting children the right to gain their own experience, neither in immediate proximity nor under parental supervision but where possible in a different city, country or business. Young family members who are prepared to succeed should be permitted to go their own way and given the freedom to evolve from the start.

This requires first that they are trusted to do exactly that. Second, it means that potential successors are not only supported but also challenged to demonstrate managerial and decision-making abilities in external contexts before they assume responsibility in and for the family firm.

8. Successors should not be left out in the cold!

Make sure not to confuse an acceptance of the succeeding generation's individuality and autonomy with blind trust, in accordance with the motto "He/she can do that! – It was not easy for me either!" Many successors feel unsettled by the host of expectations and new responsibilities, and they search for orientation. Intergenerational dialogue can be extremely helpful in such moments. Seniors know similar situations all too well when they were forced to demonstrate entrepreneurial competences to parents or third parties. Understanding, solidarity and trust between parents and children help to correct painful past experiences and avoid them in future. Sons and daughters need not perceive the family business as a burden and/or threat, but rather as a challenge and opportunity to gain valuable experience for life.

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 are management-buy-out and management-buy-in, selling to another company, IPO, establishing a foundation etc.

It is a legitimate and understandable wish to keep the business in the family; but this objective should not cause serious and perhaps unmanageable conflicts within the family, with ultimately negative effects on the business. Nor should a successor be selected for reasons of kinship alone but 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 valuable!

The transfer of a family business is one of the biggest changes and thereby one of the greatest challenges to the firm and the family likewise. Patterns well established over decades are now submitted to critical scrutiny. All of a sudden it is no longer the senior at the helm but the son, the daughter or nephew. Nothing is the way it used to be, not in the firm, not in the family; all parties involved – relatives and employees – are thoroughly unsettled.

Apart from consultation of external experts for legal and tax issues, it is often useful to recruit the services of advisors and coaches to accompany the transition phase for a defined period or longer, and direct the process onto a secure course. A "succession jour fixe" at regular intervals, for example, bringing together both generations plus an external coach in a moderating capacity, may serve as a context – separate from daily operations – to address problematic behaviour, perceived insults and questionable developments and decisions, and prevent an accumulation or "boil-over" of resentment. Senior and junior generations can thus create a platform of reflection on the succession process, undisturbed from interference, to agree on a code of conduct and on changes where necessary.

Calling in external advisors is by no means a sign of weakness but rather of responsibility in addressing what is arguably the most important decision in the lives of owners and their families.

III. Ideal course of a handover process

In conclusion we shortly suggest an ideal course of a succession process, divided into a first part that describes preparations and ways to expand the range of options, and a second part with detailed steps in the transfer of responsibility.

**Part 1:
How to prepare the succession process/ how to promote successor competences in the business and the family**

(1) Develop a concept of family strategy on basic issues concerning the family enterprise (continuation of the business, aims and objectives, family values etc.).

(2) Introduce the next generation gradually to the option of future functions in the family business.

(3) Discuss possible training courses and degree programmes that correspond to the successors' needs and inclinations and also meet the requirements of executive positions in your own business, or which least do not block the chances of a possible succession.

(4) Introduce the next generation to the role of associates, independent from succession to the operative business.

(5) Prepare the company for succession regulations, e.g. with management structures that reduce the company's dependence on the current (family) management.

(6) Define a requirement profile for future successors.

(7) Accompany the successors in the early steps of their career (inside or outside the family firm): set up an individual schedule of professional development covering personal, social, vocational and entrepreneurial competences.

Part 2: Detailed steps in the transfer of responsibility

(1) Analysis of the family business including strategic development perspectives and challenges to the management.

(2) Analysis of the potential of "interested" successors, against the background of existing management constellations and alternative personnel solutions (within vs. outside the family).

(3) Preparation of the senior entrepreneur for relinquishing entrepreneurial responsibilities.

(4) Selection of a successor according to competence criteria and with the assistance of external advisors.

(5) Definition of a time-table for his or her subsequent "steps to the top".

(6) Introduction of executive and advisory structures in complementation of the new management constellation.

(7) Gradual assumption of responsibility simultaneously with the delegation of responsibility on the part of the previous management.

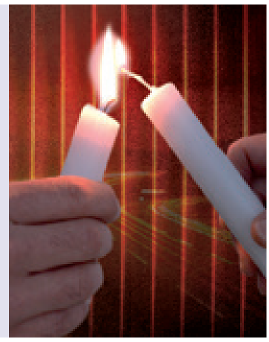
(8) The successor assumes the executive management and corresponding responsibility.

(9) The senior generation withdraws from management and receives support in assuming advisory functions in or outside the family business.

(10) "The next transfer is sure to come!"
Each succession brings changes in family constellations, with a new and younger generation becoming the focus of attention, so that basic family strategies may need to be reconsidered.

As a rule, succession processes do not run according to plan. Each owning family must find their very own individual way, on which all persons affected by the succession will experience some uncertainty. This is about a life's work, about life scripts. As a consequence, emotions run high in an owning family when so much is at stake. This best practice guide is intended to assist all persons involved in a succession process in perceiving this chance to keep a business in the hands of the family for generations as a unique opportunity, and not as a risk, a threat or even a burden.

IV. Selected Witten texts on succession in family business



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15 YEARS

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