Succession Planning Series

Succession Planning: An Interpersonal Approach or "The Elephant in the Living Room"

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Jimmy: *"Psssst.* There's an elephant in the living room, but we're pretending it's not really there and it's not really an elephant."

Sammy: "But it's enormous and it smells!"

Jimmy: "Just ignore it. Maybe it will go away."

Sounds pretty silly, doesn't it? - Ignoring an elephant in your living room. How could anyone ignore an elephant in their living room?

We use this pachyderm metaphor in our culture to describe issues that we don't want to confront. Issues that cause conflict or that are best left alone because no solution is readily apparent.

Succession planning for insurance producers is often an example of this "avoidance" phenomenon, just as estate or financial planning can be for the average individual. According to LIMRA research, only a small percentage of insurance producers have a formal succession plan in place even though the average age of producers is around 58 year old. This may explain, at least partially, why only approximately a third of family businesses continue into the second generation, and less than 15% survive into the third generation.

While the research on this attrition is sound, many myths dominate its explanation. Whether a particular factor in a "failed business handoff" is a myth or a truth can often be distilled down to one primary driver: personality variables and how they impact family dynamics and key decision-making. And yet, few insurance entrepreneurs proactively address this "soft" issue.

An overused explanation for the falloff is that second generation successors are less ambitious and less hungry than the founder of the business. Another is that as families grow larger, family members tend to separate because of differing interests. A third explanation is that family members are repelled from the business because of the emotional environment - an environment that struggles to make the distinction between a family and a business issue.

Whatever the reason, over my years of working with large corporations, small and medium sized enterprises, and individual entrepreneurships, I become increasingly aware that they all have a common challenge when it comes to the future of the family or non-family business: people issues!

But because people dynamics are often difficult to grasp and manage, particularly in a family with all its history, Principals tend to focus on the 5 logical and tangible steps of the process which are:

1) defining and organizing the business for sale and/or succession,
2) setting financial objectives,
3) finding potential buyers and/or successors,
4) valuing the business, and
5) planning for the transition.

While all of the above steps are crucial elements to any succession planning, the "thin red line" that runs through all of them is the interpersonal dynamic that is destined to dominate the process if it is not addressed early, often and throughout.

To frame the key interpersonal variables that are most important to the succession planning process, regardless of whether or not the key players are family members, one needs to identify on which measures people are most likely to differ.

My preference is to measure and analyze what I call "the big seven" factors that tend to drive both positive and negative interactions in any business. They are:

- ***Competitiveness***
- ***Confidence***
- ***Energy***
- ***Extroversion/Introversion***
- ***Intellectual Criticism***
- ***Anxiety***
- ***Distractibility***

How two or more individuals compare and contrast on each of the "big seven" tends to establish how they approach any planning process and their interactions with others during it. In other words, if they are homogenous on a particular factor they may view the world around them in a similar manner and, therefore, understand each other's approach and perspective more easily. On the other hand, if they differ significantly on one or more of the factors, they may have difficulty grasping why the other person or persons behave the way they do. But what if two or more stakeholders are high on a factor like competitiveness? Are they liable to have authority conflicts or trouble delegating to each other and others? Will their high drive to excel "blind" them to what is best for the enterprise? And will this become a barrier to real and productive decision-making?

Competitiveness is just one of the seven interpersonal factors, but you can see how the other factors, alone and when combined, can be an underlying element in the succession planning process.

Therefore, while formal, business planning steps are very important to any successful succession plan, they are only part of the story. To ignore one of the six steps is to increase the likelihood of a failed succession. To ignore the interpersonal dynamics within the key stakeholder group is to pretend the elephant is not there. And an elephant in your living room, sooner or later, needs to be addressed.

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