The personal touch

No matter where negotiations settle, the human side of succession planning — interpersonal dynamics — can make or break your transition's success.

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Studies say only about 50 percent of businesses will survive a generational change, whether to a family member or staff producer. Much of the low success rate can be attributed to the succession process itself. Two equally important parts must be considered:

1. Mechanics of succession: business valuation, finding potential buyers and transition timeline

2. Dynamics of succession: interpersonal and management styles, business philosophies, willingness to share control, and successor's sales and relationship management skills

While business valuation and financing are important considerations, the interpersonal and behavioral aspects are far more important to success. Our research indicates that while producers rarely receive the money they initially believe their business is worth, this seldom scuttles the process. The top reason for failed successions is the owner's inability or unwillingness to co-develop expectations with their chosen successor(s). As we all know, relationships in this profession are everything, so it should be no surprise that the interaction between the owner and their successor(s) is a key success factor, as well.

Succession outcomes

Our research shows there are really only three possible outcomes in a succession. Following are real-life examples of independent agency successions we have worked with demonstrating those conclusions:

Scenario 1: The business fails because the succession process is grossly flawed.

- Exploitive-Authoritative owner, Participative successor
- Divergent visions of the business's future
- Lack of mutual respect
- Successor lacked sales skills
- Owner began his succession process too late and did not follow a plan

Successions are like fingerprints: Each one is unique.

Scenario 2: The business survives the succession, but one or more of the stakeholders to the succession process is left unfulfilled.

- Son and stepson join the business
- One has sales and relationship management skills, other does not
- Son exits the business after one year with a too-generous severance package
- Strained, but productive, relationship between stepson and owner
- Stepson is slowly growing the business, and owner is gradually reducing his daily duties

Scenario 3: The business survives the succession process, and the stakeholders are reasonably fulfilled.

- Both owner and successor share a Consultative management style and a mutual respect
- Successor is as good, or better, at sales and relationship management as the owner
- Strong mutual understanding of each other's needs in the transition (including the owner's need to stay active)
- Regular and robust debates regarding authority, delegation and organizational design
- Sales growth is strong, and existing clients have been introduced slowly to the successor

From these three scenarios, you can see that successions are like fingerprints: Each one is unique. It is also clear that personal, family and emotional issues often need to be addressed. It is vital for any succession planning process to identify, at its beginning, the issues that are likely to negatively impact an efficient and effective journey. Once recognized, stakeholders can

Success predictors

Our research has identified six major success predictors for the transfer of an insurance practice from one generation to the next:

1. Complementary management behavior based on psychologist Rensis Likert's four styles of management: Exploitive-Authoritative, Benevolent-Authoritative, Consultative or Participative

2. Mutual respect

3. Self insight

4. Understanding others' needs

5. Understanding organizational structure, authority and delegation

6. Sales, retention and growth competencies of the successor

address each issue to ensure a positive and productive dialogue before any of them become deal breakers.

Coaching for success

Our experiences in assisting many insurance entrepreneurs with their succession helped us develop a three-phase coaching process that takes into account the factors necessary for a successful succession:

Phase 1: Assess all stakeholders. By measuring the six major success predictors above, we assess the owner, the successor(s) and all other stakeholders, including spouses, children and current staff. These assessments are used to determine the likelihood of a successful transition based on the actual situation in the business. Next, a plan is co-

developed with all parties to increase the probability of success, whether the threats to success are based in behavioral/dynamics, business/mechanics or both.

Phase 2: Begin individualized coaching. Regular and ongoing coaching for the owner, successor(s) and other key stakeholders is facilitated based on the in-depth assessment. Since the goals and objectives of the stakeholders in each succession are highly individual, this important work is critical to a smooth and effective transition. This phase includes:

- Identification of management roles and responsibilities including key staff
- Client relationship "handoff" and management
- Ongoing management of key issues and problems
- Business development and growth planning

Phase 3: Implement and evaluate. The third phase incorporates the implementation and evaluation of the framework developed in the first two phases.

It is clear from our research and practice that many successions cannot be labeled as successful or unsuccessful, but at best, seen as reasonably satisfactory to the majority of the stakeholders. It is truly not a perfect process — it takes effort and control over behaviors and a willingness to endure different opinions and approaches to compromise for the good of the business.

Our experience is that most stakeholders are willing to try to make accommodations to the other party(ies) to ensure an ongoing satisfactory relationship. However, they often lack the tools and knowledge of how to do it. ■