

Your Family Needs An Emergency Succession Plan

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As we all know, successions and family business succession planning are rarely easy, but unexpected transitions pose a significant risk to family businesses. When Herbert Fisk Johnson, Sr., the leader of SC Johnson, died unexpectedly in 1928, he left no succession plan. A struggle ensued for control of the Johnson empire, pitting brother against sister. Eventually, a 60-40 split gave control to Herbert Fisk Johnson, Jr.

"It took my father 10 years before he was able to settle my grandfather's estate," Sam Johnson recalled. "Fortunately, it didn't wreck the family. My father said, 'I'm never going to let that happen to my son.'"

Succession plans -- what I refer to as generational succession plans -- are important to the health and longevity of a family business. They have been researched, widely discussed, and broadly implemented. This is a success story. It has demonstrably improved the state of family businesses throughout the world. However, most of the generational plans have a blind spot: they implicitly assume a planned, orderly transition over time. They fail to prepare the business to manage an unplanned succession created by the unexpected death or disability of the current leader of the business.

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The loss of a leader creates uncertainty among key stakeholders including customers, lenders, and employees, as well as among family members. This uncertainty threatens the business' prospects and can lead to the loss of major clients or funding sources. The unexpected loss of a leader requires quick and decisive action to steady the ship, provide a sense of leadership

and reassurance and create confidence among a business' key stakeholders. It requires a plan that is distinctively different than a generational succession plan. You need a leadership disaster recovery plan, just like you need other disaster recovery plans, such as those you have for your facilities and information systems.

So, what should be in your emergency succession plan? It should begin with a plan for who immediately, but perhaps only temporarily, assumes the leadership role in the business. Immediately means now -- not in a week or a month, not after the family debates the issue. The debate needs to happen before the emergency. Decisions need to be made *before* the crisis. Decisions such as: Who fills the key leadership roles during the crisis? Who becomes temporary CEO? Who moves up into the Leadership Team? Who communicates with the key stakeholders? What happens with the ownership? How long will the crisis team remain in place? How will we transition back to the generational succession?

Selection of the Lead

Taking over leadership of a firm after the unexpected loss of a leader is a huge and difficult job. The first question that must be addressed in your plan is will this be a temporary appointment, until the planned successor is ready to lead, or will this be a permanent appointment? This depends upon the age, experience and capabilities of the planned successor(s) at the time of the emergency. If the planned successor is ready, then the generational succession plan can be executed with some modifications; however if they are not ready, then an interim lead will need to be designated.

The interim lead should be someone who can provide calm leadership and project stability to key stakeholders. They should be able assure continuity of the business. The preferred choice should be respected and known by employees, customers, and other

important stakeholder groups. They must be respected and trusted by the family.

Candidates for this role should be selected from the ranks of the existing leaders (family & non-family), or perhaps, key advisors to the business. Once a selection is made, and prior to the emergency, this individual needs to be informed, and prepared to fulfill the role. Access to information, financial accounts, information systems and other key resources needs to be set up prior to the emergency to speed access as needed. Other key members of the business and the family need to be informed of the choice.

Selection of the Interim Lead Team

During the time of transition, a united front is superior to a single face. A team of 3 to 5 should be designated to assist in the transition. This team's role is to support the new leader by providing valuable guidance, expertise, legitimacy and contacts during the succession. If a younger individual from the family is taking over the lead, this team is crucial in establishing the credibility and legitimacy of the new lead.

A recognized leader from the family -- such as the spouse, an older son or daughter, or a sibling -- should be part of the team. This individual provides a signal of continuity, a direct link to the family and sense that the family's interests are being attended to. This is a critical role, particularly if the interim lead is not a family member.

Others chosen for this team should be respected leaders with important expertise. Lawyers, accountants, board members and senior non-family employees are obvious candidates. These team members should have relationships with key stakeholders, such as employees, customers, suppliers, etc. and be respected by the stakeholders in the business.

Ownership

If a generational succession plan is in place, then the transfer of ownership has probably been handled, but if the plan was for a gradual transfer, a supplementary plan made need to be put into place in the case of an emergency succession. You need to review this with your legal and financial advisors. There may be important tax ramifications that need to be considered.

A Communications Plan

How the firm communicates the loss of a leader to key stakeholders can have significant impacts. Communications need to recognize the loss, but also stress the resilience and stability of the firm. The firm should make clear that it has a plan for the transition that it is already executing. Individuals with strong relationships with key customers should be selected as the point of contact for these firms. A consistent, clear, and reassuring message needs to be sent quickly to all the key constituents. There can be no doubt about the health of the firm, nor its intentions to continue to provide the service they've all grown to expect. This is not the place for a text, press release, or email. This requires the personal touch of a phone call, or better yet a meeting if time allows.

Financial Plan

Nope, this isn't about retirement planning, investment, inheritance, etc. This is about the nuts and bolts of assuring access to all the firm's accounts, such as bank accounts, investment accounts, lines of credits, etc. This probably requires legal documents, such as the creation of power of attorney that designate who has access and signatory rights on these accounts. Your lawyer should be able to put everything required into place in advance, and then execute it if needed, but this is an important detail. Being locked out from funds for even a short period of time can be damaging to a firm and create uncertainty about its future.

Over the last 2+ years, the pandemic has brought home the risks we all face, particularly people who are gaining in years. A family business cannot afford to ignore this risk. It must prepare not only for an orderly, planned succession, but also for an unforeseen emergency succession. To prepare, the firm must plan for it and prepare those who will participate in the succession. This is too important to leave to chance. This plan cannot just be created and left, because important facts, particularly the readiness of the Next Generation, continues to change. A plan needs to be put in place and reviewed, at least annually. Decisions about who leads, who is on the lead team and who communicates with key constituents need to be made, and then reconsidered as the firm grows and evolves.

Don't leave your firm's future to chance, and don't count on an orderly planned succession. You need two succession plans: the one you want -- the orderly generational succession plan -- and the one you hope you never need, the emergency succession plan.

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