"If you fail to plan…you are planning
to fail", Benjamin Franklin

Insight 8 – Business Continuity

The thunderstorms of the day before had given way to bright skies and thoroughly pleasant temperatures, so everyone showed up for the Noon hour run.

As the group set off, Jim, who had skipped the previous day's lunchtime conversation, asked "Did I miss anything interesting and exciting?"

"Definitely interesting," Dave responded as he, Jim and Julie kept pace together, "and I think I could say it was exciting, depending, of course, on your definition of excitement. If you are talking 'jump off a cliff' exciting, then 'No'; but hearing more about how Julie's family's business has successfully transitioned into its third generation certainly got my attention."

"Do tell, Julie — what's the secret sauce?" Jim asked.

"No real secret," she answered, "just a lot of thoughtfulness and collaboration between generations. And I would add that it seems to have gotten easier each time as the experience has grown — from my grandfather to my father to my brother, who runs the business today. I am sure he will be better equipped to manage the transition to whomever takes over when he is ready to step down."

"Well, I am many years from retirement," Jim offered, "and, hopefully, one day my son or daughter will want to step into my shoes, but it's not something I need to worry about now."

"If I may," Dave couldn't help himself. "I agree that it may be too early to have succession conversations with your children, but there are risks to continuing your family business that should still be considered."

"Such as?" Jim asked, somewhat surprised by Dave's tone.

"Such as 'What if something happens to you between now and the time you could have those conversations with your kids?'"

"What do you mean, like if I die?"

“Actually, there is a greater chance you will become disabled than die in the next twenty years, but, yes, I am referring to death and long-term disability. Who would run the company? Your wife? Would she want to do that? And not to suggest otherwise, but would she be capable?

“How about your in-laws, whom you have already said want a larger role in the firm’s operation? Could they take over leadership? How would customers and staff react if you were not fully on the job — or at all?

“Sorry to sound so forceful, but from our earlier conversations, I am guessing you do not have a Business Continuity Plan?”

“We have a plan to deal with disruption of the business due to some unexpected contingency such as a fire at the office, a server meltdown and so on. It even covers earthquakes, which as you know, aren’t exactly common in our part of the world!”

Dave acknowledged Jim’s weak attempt at humor with a nod before he continued. “And how did that plan come about?”

Recognizing that Dave was hoping for a more serious conversation, Jim responded in kind. “A couple of years ago, we wanted to become ISO 9001 certified to give our customers (and ourselves) confidence that our management systems were well-designed to deliver what we promised the marketplace.

“As I am sure you know, you have to go through a fairly rigorous process of evaluation and documentation of essentially all aspects of your business from manufacturing to audit processes to cybersecurity and every other potential catastrophe you could contemplate possibly occurring. We hired an ISO 9001 consultant and as part of his work, he helped us put together the recovery plan that we would implement in the event of any of those types of contingencies.”

“So, now you have what I would call a ‘disaster recovery plan’ that doesn’t include the potentially biggest disaster of all — you not showing up for work for an extended period of time or ever again. That’s the Business Continuity Plan I am most concerned about in the context of succession in your young business.”

As was his habit when he was thinking deeply about something, Jim didn't say anything for the next couple hundred meters, until he turned towards Julie.

"Your family seems to have done a lot of things right in the family business. How do you deal with the business continuity issue that Dave is describing?"

"Well, we are fortunate in that ours is a larger firm and we have been blessed with being able to somewhat count on family succession. That said, our Family Constitution requires us regularly assess our senior management and identify the next cohort of leadership. Then we have a process of preparing potential contenders over time. Sometimes, we have been lucky and had more than one good candidate; sometimes not.

"Regardless, we always want to be prepared for the possibility of death or disability that Dave mentioned. It can take years to groom the next CEO. Sure, my brother would love to have one of his kids take his place one day, but there is, obviously, no guarantee that all the stars will line up when they need to."

"So how do you manage that risk?" Dave asked.

"At the most basic level, of course, we have corporate-owned life insurance in place for my brother to soften the inevitable financial impact on the company should he die and personal disability coverage to ensure that should he become disabled, he could focus on recovery without financial concern.

"At a higher level, the goal goes right back to my grandfather's initial intentions when he started the company. He wanted to create a business that would, essentially, last forever, to the ongoing benefit of the family. But he knew that successful transition from one generation to the next required more than a succession plan from one CEO to another. It also had to include continuation of the company's values, its intellectual capital and family relationships, as well, of course, its financial strength.

"So, what I am hearing you say," Dave reacted, "is that business continuity has to take into account three perspectives: family dynamics, business management and the shareholders?"

"Yes," Julie confirmed, "but the good news is that those are the same viewpoints we applied to all of our governance considerations. Through our Family Mission Statement, Family Constitution and Family Counsel, we have addressed things such as perpetuation of family values, communication, dispute resolution, management development and ownership transfers."

"And of those", Jim jumped back into the conversation, "it seems to me that communication is, once again, the key to success."

"Definitely!" Julie exclaimed. "There are so many variables that come into play over what could be a multi-year process, as it was in the case of my brother. There are family subtleties to consider, for example, if there are two family members who each think they should be next in line. Making sure everyone understands the criteria for leadership and the pre-determined process for making a choice if there is more than one candidate is essential."

"Ooh, I can see how that can become a contentious issue," Jim noted. "Has it ever happened in your family?"

"Only once, and that is why we then decided to bring a non-family member of the firm into the picture. It became apparent that we needed an impartial person, managing a transparent process with the necessary steps to ensure we considered all candidates fully and fairly. It had to be someone with good organizational and communication skills to keep everyone on track."

"Have you ever had the situation where there was no candidate?" Dave asked.

"In fact, we did," Julie answered. "My brother is a big fan of Stephen Covey's 7 Habits of Highly Effective People[1]. He is always quoting them to the point where I think the entire family knows them off by heart. His favorite is #2 – *Start with the end in mind.* So almost immediately after he assumed the CEO role in the family business, he began to look around the firm for his most likely successor — even though it was expected to be years before any transition would happen.

1 The 7 Habits of Highly Effective People: Powerful Lessons in Personal Change - Stephen R. Covey, 1989

“He soon settled on one of my cousins who was in his early 30’s and had been working in the business for about 5 years. He was smart, self-motivated and well-liked; and my brother felt he had an air of confidence that told you he was going to stand out from the crowd in whatever he did.

“The problem, however, was that he didn’t want the job! Or more precisely, he didn’t want to go through an extended educational, qualification and selection process that would take years before he would assume the leadership role in the company. My brother was right — my cousin was self-confident to the point of believing he could achieve personal success faster, perhaps outside the family business, than by making a commitment to do whatever had to be done to become the CEO in 20 years or so.”

“So, what did your brother do?” Jim asked with renewed interest.

“He did what I think you might end up doing, Jim,” Julie suggested. “With no immediately identified continuity partner, he went to Plan B. He drafted a business continuity plan that included all the elements of structure, governance, process, successor qualifications, transition procedure, communication… most of which was, as I said, already incorporated into our other family documents. He just narrowed the focus to business continuity.

“His plan had two scenarios. One was ‘business as usual’ in the sense that it assumed a family member would emerge at some point who would be a good successor to my brother and the full weight of the process could be applied.

“The other scenario outlined what was to happen if my brother died or became disabled before that candidate was ready to lead the company. As Dave suggested earlier, we obtained some additional life and disability insurance to assure some measure of financial capacity if either of those events occurred.

“Both scenarios required setting up a management committee with singular responsibility for business continuity considerations. I sit on that committee, for example. My brother also contemplated the establishment of an advisory board made up of both internal senior managers and external subject matter experts to teach, coach and mentor any succession candidate in areas where he or she might need to develop greater knowledge and skills."

"Wow'" Jim said. "You guys have really thought things through in your family business!"

"Thanks, but to be fair, much of what I have described didn't happen overnight. It matured over time, and as our business evolved, we tried to stay ahead of any changes that might be required in our thinking and our beliefs about how the company should be managed.

"I don't mind admitting, as well, that we made some mistakes along the way. However, my grandfather instilled the notion of continuous improvement into the business and the family members involved, right from the start, so we have always tried to practice what he preached.

"But so much looking out and planning," Jim noted.

"It's not so difficult," Julie responded. "Once you know what you want, it is relatively easy to decide what to do. What's the old Ben Franklin quote…? '*If you fail to plan…you are planning to fail'."*

Dave wanted back into the discussion. "My view is that business continuity in the context we are talking about should be part of any organization's risk management strategy, large or small. If leadership is compromised in any significant way, the business is at risk.

"The reality is that leadership will change someday — whether by design or default. The question is whether the business' owners will be in control of the outcome or let fate and circumstance dictate what happens to the business they have spent their lives building."

Again, Jim fell into his silent mode as they rounded the last corner on the way back to their starting point.

Finally, he spoke. "That was an ominous sounding and I assume rhetorical question."

"It was designed to be," Dave responded. "I want you to agree that we will work together on broadening the scope of the disaster recovery plan you currently have by elevating it above technical perils to include potential threats to your leadership, which in turn, could put the business at risk at the highest level."

“So, it’s basically asking what could happen, what’s the impact and what do we do about it,” Jim summarized.

“Yes,” Dave answered. “I see three possible contingencies we want to plan for – your premature death, your inability to lead the business due to illness or a disability, and lack of successor management.

“The finality of death makes that one pretty straightforward. Is there someone or a team of people within the firm who can effectively replace you in the CEO role? Hopefully, the answer is ‘Yes’; but if not, what are possible options? Hire someone from the outside? Sell the business? What else? We would want to bring your family into that discussion.

“Disability is a little trickier. The definition of disability has to be determined. What constitutes a disability? How debilitating does it have to be? How long does it have to last? Can you work part-time or in a reduced capacity? How will the company be managed while you aren’t there? What if you survive but can’t come back to work? Lots of questions to be answered and plans to be documented.

“But let’s hope you live a long and healthy life to the point when retirement starts to take up more of your thoughts. Who might be your successor? What qualifications do they need? How long would the transition take and what would it look like? Again, much to think about. At this relatively early stage of your company’s growth, we may not need as definitive a plan as Julie described, because you can revise it as your company’s needs evolve — but we need a plan.”

“You’ve been pretty tough on me today, Dave”, Jim observed.

“It’s only because I love you!” Dave joked. “So, what do you say? Are you up for it?”

This time Jim didn’t hesitate. “Well, when you put it that way, I guess I can’t refuse, can I?”, he laughed. But his far away look told Dave that he was already thinking about what would be in his expanded business continuity plan.

Toolbox

Contingency Plan Questions To Consider in the Event of your Premature Death

1. What part of your Succession Plan will have to be altered in the even of your premature death?
2. Will ownership of the business be retained by your estate, liquidated, sold or given to family members or sold to third parties?
3. Which family members would and wouldn't continue to be involved in the business?
4. Have you determined to what degree the business interest will meet the certain needs?
    a. Taxes that would arise for your death
    b. Bequests to family, charities and non -active family members
5. Do you have adequate life insurance /savings in place to make up any shortfalls?
6. Is your will consistent with the succession plan?
7. Would there be a need to reduce or eliminate business debt?
8. Would there be a need to inject capital into the business to finance interim management, consulting or executive search costs?
9. Would there be a need to inject capital into the business to finance any operating losses created by your premature departure?
10. Would there be a need to put an executive benefit program in place to maximize the likelihood that key employees will remain on board?

Contingency Plan Questions to Consider in the Event of your Disability

1. What part of your succession plan will have to be altered in the event of your long-term disability?
2. Will ownership of the business be retained by you, liquidated, sold or given to family members or sold to third parties?
3. Which family members would and wouldn't continue to be involved in the business?
4. Have you determined to what degree the business interest will meet your need for ongoing income?
    a. By providing a continuing income?
    b. By creating a pool of capital from the sale of the business?
5. If there is a shortfall in meeting your income needs, do you have disability income insurance and /or saving programs in place to make up the shortfall?
6. If you plan to retain ownership of the business interest or give this interest to family members, can the business support both you and those families in view of your absence from the business?
7. Do you have a properly structured buy-sell provision in your shareholders agreement dealing with the timing, amount and financing of the purchase of your business interest?
8. Do you have disability insurance or another source of financing in place to provide the capital for the purchase of your business interest?
9. Do you have an up-to-date Power of Attorney that is worded in consistently with your succession plan?

10. Would there a need to reduce or eliminate business debt if you were to become disabled?
11. Would there be a need to inject capital into the business to finance interim management, consulting or executive search costs?
12. Would there be a need to inject capital into the business to finance any operating losses created by your absence from the business?
13. Would there be a need to put an executive benefit program in place to maximize the likelihood that key employees will remain on board in the event of your disability?

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