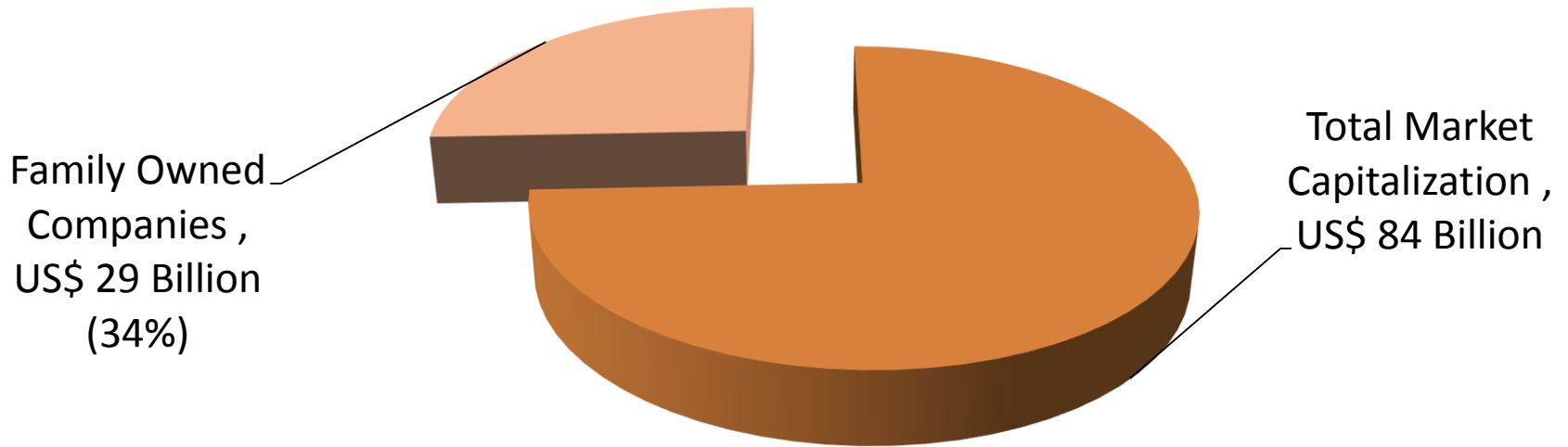
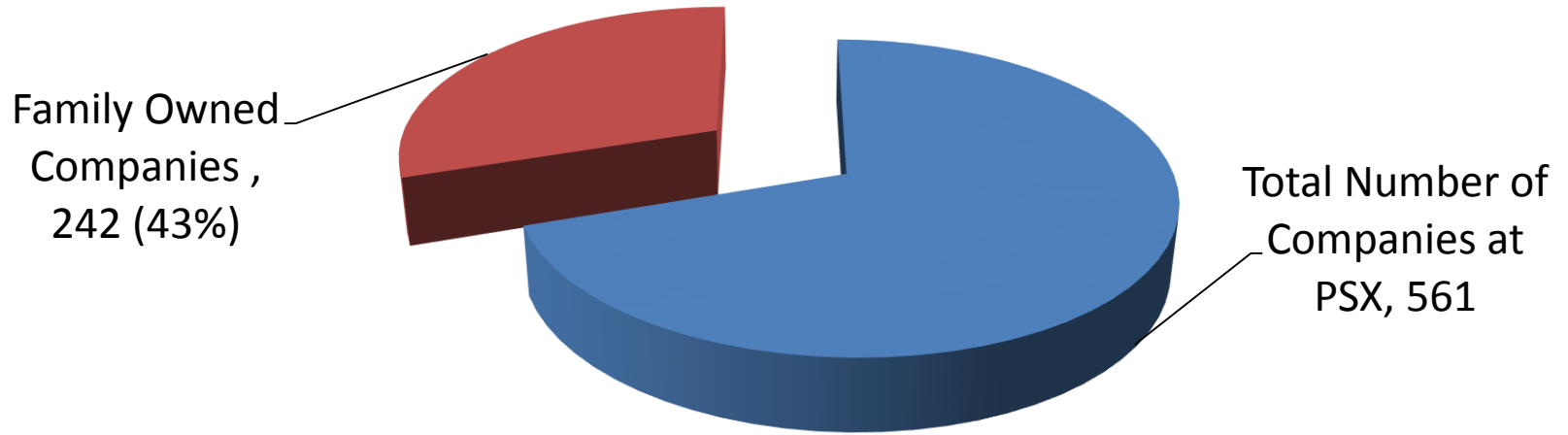


**Succession Planning
in
Family Owned Businesses**

By

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Family Owned Companies at PSX



Family or Business First

Sample Issues	Family First Cos.	Business First Cos.
Family Employment	<u>Open-Door Policy</u> for all family members, regardless of qualifications	<u>Qualification-Based Employment</u> , as for any other new hire
Compensation	<u>Equal pay for all</u> , regardless of their experience or performance	<u>Merit-Based pay</u> , based on experience, performance
Leadership	<u>Leadership based on Seniority in Family</u> , regardless of merit or qualifications	<u>Leadership granted to the right person (family or non-family)</u> , based on merit and qualifications
Resource Allocation	<u>Business Resources used for personal needs</u> (e.g., loans, grants)	<u>Business resources only used for business purposes</u> – separate family reserve fund utilized for family needs.
Decision-Making	<u>Unilateral & Concentrated with Senior Family Member</u> (e.g., Chairman/CEO)	<u>Multilateral, based on Defined Governance Structure</u> (e.g., Executive Committee)

Why Succession Planning

- If the owner(s) decides the **business** should continue, one of the most **important** decisions in **business** is **succession planning** which is choosing a successor.
- A successor is chosen by appointing a **family** member, employee or other individual to take the owner's place.

Steps of a Formal Succession Plan

- **Starting Early**
 - » To ensure continuity of business, it is important when current CEO is appointed, plans for the next one should start
- **Create Career Development systems**
 - » Consider strategic direction of company and what executive skills will be needed
 - » Create development systems to help executives fill skills gaps
- **Seeking advice**
 - » External independent directors or senior non-family members should be consulted on the choice
- **Building Consensus**
 - » Mandatory to involve key stakeholders in the selection process
- **Clarifying the transition process**
 - » A transition plan must be developed between the current CEO and the successor. The process should specify the transition date and also the level of involvement of current CEO after retirement

Merit based Succession Plan

- **Established eligibility rules:** These clearly define when and under what circumstances family members (including children, grandchildren, cousins, siblings, and other relatives) are welcome to work in the business
- **Education and experience:** Educating young family members is essential for succession and is enhanced when coupled with outside work experience in similar businesses

Merit based Succession Plan

- **Roles and responsibilities:** These rules outline what happens when family members join the business, specifically determining if a family member will fill a vacant position or if one would be created for them
- **Performance evaluation:** There must be a single set of job criteria for both family and non-family employees. A merit-based system should be used for the monitoring and evaluation of *all* employees. A board committee on human resources should comprise both family and non-family member in order to ensure continued evaluation on merit-based criteria

Merit based Succession Plan

- **Compensation:** Salary and benefits should not be discriminatory and must consider that family members are also compensated by other means such as dividends
- **Ownership:** Inequitable distribution of shares may lead to conflict amongst family members. There should be an agreed-upon system for share distribution

Conclusion

- One of the greatest challenges to family-owned businesses is to ensure competent family leadership across generations
- Failure to provide adequate succession planning is the primary cause for the demise of family-owned businesses
- In Pakistan, one of the principal sources of family disputes results from unsuccessful succession planning in relation to family-owned businesses
- The problem of succession inevitably arises when the founder-owner is nearing retirement or is otherwise unable to carry on management functions

Thank you!