PUSHING ETHICS FORWARD

The importance of ethics in succession planning

BY BRAD YARBROUGH

Of the estimated 70 million baby boomers, it is believed that 10,000 are retiring each day. Among them are large numbers of small business owners and corporate leaders. The resulting vacancy of these decision-making positions presents unique ethical challenges.

The federal government reports that small, privately owned businesses comprise 99.7 percent of all businesses in the U.S. and 90 percent of those are family-owned. As the years pass, these companies face two inevitable options. They will either transfer over ownership (to family members or others) or the business will cease operations. Because these outcomes are expected, it's shocking that 70 percent of family businesses lack a thoughtful succession plan. Is this failure to plan unethical? It certainly creates a situation ripe with ethical dilemmas. Mishandling this transition can damage relationships and the business itself. Research indicates that 75 percent of family businesses would like to hand over the business but only 30 percent are successful at transitioning to the second generation. By the third generation, only 12 percent are still viable and by the fourth, only 3 percent of family businesses remain in existence.

Similarly, publicly-held companies are adversely affected by the retiring masses. Millennials are replacing baby boomers and bring a more fluid, collaborative work attitude focused on utilizing ever-advancing technology. As we transition to a new generation of leaders, the most discussed issues have been the transfer of knowledge and skills, while other equally important issues are often overlooked.

Creating and Maintaining an Ethical Culture

This transition in business ownership and leadership begs for thoughtful, advanced planning. But in the midst of being surrounded by lawyers, accountants, merger and acquisition specialists, business consultants and financial planners, businesses are scarcely talking about a subject critical to business success and succession: the ethical culture. Today's business leaders must get beyond mere platitudes which point to concern for people, the planet and profits. Owners, executives and managers must passionately pursue the highest levels of ethical conduct. An ethical business culture must be established. It's not enough to publish a polished assertion of the company's values or a clever mission statement. Nor is the culture created by just having ethics guidelines or a compliance department. The key to establishing this culture is ethical leadership. Leaders that exemplify ethical conduct motivate others to do the same. The pursuit of profit—whether financial or driven by the gain of power—must come along with our genuine concern for the people around us and the planet on which we live. As a leader, it's always the right time to lead by example and establish an ethical culture.

Firsthand Experience

Kimray, a family-owned, Oklahoma City-based company that manufactures pressure regulators for the oil and gas industry, has been successful in creating and maintaining an ethical culture. They're a three-time recipient of the Compass Award from the Oklahoma Ethics Consortium and they believe in doing the right thing even when no one is watching. Tom Hill, former CEO and author of the bestseller, *Making Character First: Building a Culture of Character in Any Organization*, grew the company on the ethical foundations laid by his father-in-law who was its founder.

I recently spoke to Thomas Hill III, CEO since 2015, about the company's ethical culture and how important the preservation of this culture was to the success of the business. "Retiring leaders assume that they have created a culture that will survive them," he responded. "It seems obvious and clear to them, but it is often less clear to the rest of the team and even to the next generation. If they are making most of the significant decisions, it is unlikely that anyone else in the organization, including their own descendants, fully understands the underlying reasons."

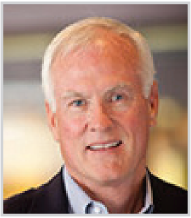
Thomas commented that he has rarely seen the successful preservation of the high standards set by previous leadership. He surmised, "There is a reason most companies don't transition successfully to second or third generational leadership. At the root is a failure to clearly and consistently communicate the core values and mission that drive the decision-making for the organization. Again, it seems common sense to the outgoing leader, but is often misunderstood by the next."

Thomas offers a solution to the problem. "It is possible for succeeding leaders to understand, adopt and continue to act in accordance with the core values and mission set by their predecessor," he says. "This requires intentional training, communication and practice. Additionally, governance through a board or other advisory groups can be very important as the new leader becomes more fluent in aligning decisions with the core values and mission previously established."

Our Responsibility

"The recognition of the importance of culture has grown tremendously over time," says Craig Aronoff, co-founder of The Family Business Consulting Group, noted speaker and a retired business college professor. "What we do is the expression of what we believe. Unfortunately, the majority of entities don't pay attention to the importance of culture, not consciously, whether in the manner it's created or sustained." During our conversation, he reminded me of the famous Peter Drucker line: "Culture eats strategy for breakfast." It underscores the importance prioritizing both culture and strategic planning if the business is hoping for success.

Led by the IRWA, the right of way industry has been diligently working to strengthen its ethical culture. Many IRWA members are owners of family businesses and others hold leadership positions in publicly-held companies. Faced with retirement, it's our solemn responsibility to exemplify ethical conduct, make sure we mentor our successors and implement structural features within our businesses that will promote an ethical culture. ✪



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