



MASTER IN BUSINESS ADMINISTRATION

# Family Business Succession at Actuaria Consultores S.A.

Author: María Beatriz Ibarra Del Pozo

Supervisor: Dánae Cortés Campanario

Master Final Project

Madrid

June 2023

## **Family Business Succession at Actuaría Consultores S. A.**

**Summary:** Succession planning is one of the most important aspects in family businesses as companies can go through uncertainty that can lead to critical risks for leadership and operation continuity in the long term. Having a succession plan allows companies to have a long-term strategy to guarantee business stability. The objective of this consultancy project is to achieve an organized and successful succession and generational transition for Actuaría Consultores S.A., a consultancy firm based in Quito, Ecuador, of which the majority of its ownership and control lies within the family. Without a doubt, the family component plays a key role in defining the strategy for a succession plan. Moreover, it is expected that through a defined plan the company can provide transparency to avoid possible conflicts while following all corporate values. To achieve this consultancy, the company has to be clear about its main objectives for the future and its corporate and business strategy when the alluded generational succession will take place. Through this analysis, succession plan alternatives will be presented taking into account the high potential, competencies and skills of the various stakeholders, to be aligned with Actuaría's core corporate purpose.

**Keywords:** succession plan, family business, strategic vision, future leadership, values, key employees, succession management.

## **Sucesión familiar en Actuaría Consultores S. A.**

La sucesión empresarial es uno de los aspectos más importantes en las empresas familiares, ya que las compañías pueden enfrentar incertidumbres que pueden generar riesgos críticos para la continuidad del liderazgo y las operaciones a largo plazo. Contar con un plan de sucesión permite a las empresas tener una estrategia a largo plazo que garantice la estabilidad del negocio. El objetivo de este proyecto de consultoría es lograr una sucesión y transición generacional organizada y exitosa para Actuaría Consultores S.A., una firma de consultoría actuarial con sede en Quito, Ecuador, de la cual la mayoría de su propiedad y control recae en la familia. Sin lugar a dudas, el componente familiar juega un papel clave en la definición de la estrategia de un plan de sucesión. Además, se espera que, a través de un plan definido, la empresa pueda garantizar transparencia para evitar posibles conflictos, al mismo tiempo que pone en práctica todos los valores corporativos. Para lograr esta consultoría, la compañía debe tener claros sus principales objetivos para el futuro y su estrategia corporativa y de negocio cuando se lleve a cabo la sucesión generacional. A través de este análisis, se presentarán alternativas de planificación de sucesión teniendo en cuenta el alto potencial, las competencias y las habilidades de los diversos interesados, para estar alineadas con el propósito corporativo de Actuaría.

**Palabras claves:** plan de sucesión, empresa familiar, visión estratégica, liderazgo futuro, valores corporativos, empleados clave, gestión de sucesión.

## TABLE OF CONTENT

I.	Introduction.....	1
II.	Definition of the consulting problem.....	1
1.	Current analysis of the current situation of the company .....	1
2.	Strategic vision and mission of the company .....	9
3.	Main objectives for the future.....	10
4.	Critical risks for continuity .....	11
III.	Theoretical framework of family business .....	12
1.	Family component .....	12
2.	Benefits of Family Business .....	15
3.	Challenges of Family Business.....	16
4.	Family Business best practices .....	17
IV.	Succession plan alternatives .....	18
1.	Potential Alternatives.....	18
2.	High potential employees .....	25
3.	Skill and Competency set needed .....	26
V.	Execution and evaluation.....	27
1.	Further Action Plan.....	27
2.	Succession Processes .....	31
3.	Benefits for the company .....	33
4.	Experience and observations.....	34
VI.	Conclusions.....	34
VII.	References.....	37

**INDEX OF FIGURES**

Figure 1: Services Portfolio ..... 2  
Figure 2: Actuaría’s Value Chain ..... 2  
Figure 3: Stakeholders analysis ..... 4  
Figure 4: Actuaría Net Sales Revenues vs Gross Profit ..... 6  
Figure 5: SWOT analysis..... 11  
Figure 6: Three Circle Modelo f the Family Business System..... 13  
Figure 7: ACTUARÍA Three Circle Modelo f the Family Business System ..... 15  
Figure 8: Organizational Structure..... 19  
Figure 9: 9 Box Grid..... 25  
Figure 10: Succession Timeline..... 31

**INDEX OF TABLES**

Table 1: Shareholding Structure ..... 3  
Table 2: Competitors analysis..... 4  
Table 3: Financial statements fiscal period 2021 ..... 6  
Table 4: Company’s situation as of December 2021 ..... 7  
Table 5: Company’s financial ratios ..... 7  
Table 6: Shareholding Structure ..... 20  
Table 7: Risk Matrix ..... 33

## **I. Introduction**

The objective of this consultancy is to define a succession plan according with the company's strategic vision as well as its corporate values. The consultancy seeks to define the intergenerational succession that is necessary in the short term without having any negative impact on the company specially in the relationship with their main stakeholders including clients, shareholders, employees, Board of Directors, suppliers, competitors and regulatory bodies. Confidence and trust are key in generating value for the future certainty of the company. Part of the consultancy is to conduct a comprehensive analysis of the strategic plan from both human resource and legal perspectives.

Due to the specifics of a family business, this consultancy will be practical and useful as it allows to define succession guidelines for the short and medium terms. The core objectives for this consulting project are: suggesting a succession plan that fits the needs of the company, identifying and evaluating critical roles for succession planning, identifying candidates for succession implementations and monitoring key competencies and skills crucial for future business leaders.

In terms of methodology, it will be important to follow these steps: company data collection, process mapping, literature research and information process for qualitative and quantitative goals.

## **II. Definition of the consulting problem**

### **1. Current analysis of the current situation of the company**

Actuaria Consultores S.A. (ACTUARIA) is a company founded in 1986 in Quito, Ecuador, with over 5,000 clients nationally and internationally, that provides services in the actuarial and consulting field. In recent years, the firm has also diversified its products in other specialized areas, such as mathematical-statistical modeling, financial consulting services and data science consulting services, among others, with the objective of providing clients with a wide-range of services.



Figure 1: Services Portfolio

The value chain of the company is divided into commercial/marketing and operation management, the last one being constituted by two team areas: Consulting Services and Management of Labor Liabilities. The consulting area of the company specializes in services such as corporate actuarial consulting Services, actuarial consulting services for insurance and prepaid medicine companies, pension funds, among others. Furthermore, the Management of Labor Liabilities area provides actuarial services for the proper management of labor liabilities in accordance with current labor legislation in Ecuador. These core processes are directly supported by areas of significant importance for the company such as Human Resources, Information and Communication Technology (ICT) and Financial Administrative Management areas.

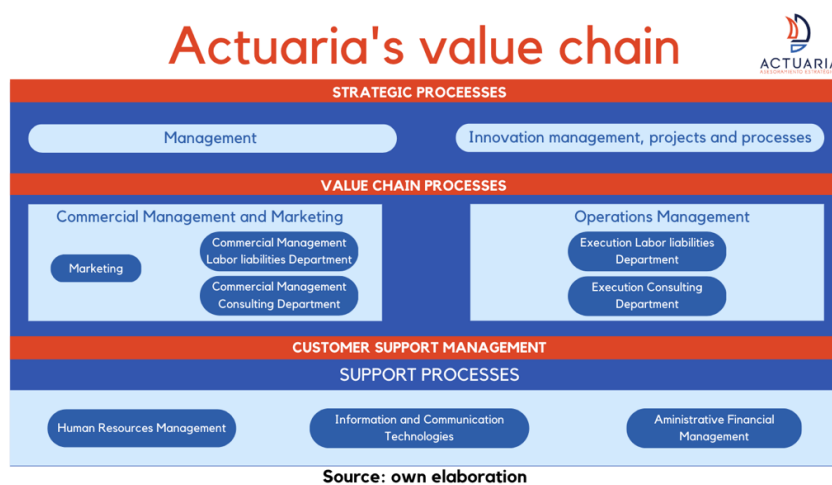



Figure 2: Actuaría's Value Chain

Since 2020, ACTUARIA has implemented a policy of Good Corporate Governance and has appointed a Board of Directors in order to define actions and guarantee compliance with the company’s mission and vision. ACTUARIA seeks to be a benchmark in the development of its business activities in accordance with its corporate principles which are: commitment, responsibility, ethics and excellence. Such principles are looking to align with a positive impact in the community and the environment.

Among its Corporate Governance guidelines, ACTUARIA plans to ensure adherence to the following objectives:

- a. The execution of shareholder rights and equal treatment for all shareholders, including minority and foreign ones.
- b. An adequate and timely disclosure of all the relevant matters of the company, including its financial situation, quarterly performance, shareholding activities and internal administration.
- c. Strategic guidance of the company, the effective monitoring of the management team by the Board of Directors and its responsibilities with the various shareholders.
- d. Effective internal and external control mechanisms.
- e. Ethical and transparency standards in corporate practices.

Regarding the shareholders structure, currently the firm has 10 members, with a major participation of more than 50% for Rodrigo Ibarra what makes it a family business as the majority of the ownership and control lies in a family member:

**Shareholding Structure** 

Stockholder	%
Rodrigo Ibarra	58.53%
Xavier Moncayo	19.84%
Enrique Rueda	3.97%
Fernando Ruales	3.97%
Luis Romero	3.97%
Fernando Navarro	3.97%
Fideicomiso de Administración SACOPO	3.97%
Antonio Durán Ballén	0.99%
Esteban Vargas	0.40%
Roberto Valdez	0.40%

Source: Actuaría Consultores S.A.

Table 1: Shareholding Structure



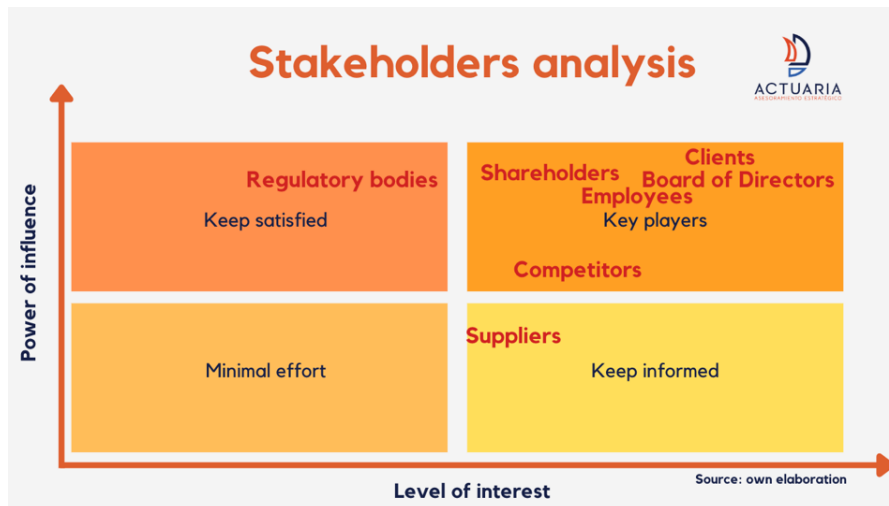


Figure 3: Stakeholders analysis

As shown in the chart above, the main stakeholders have a specific degree of influence and interest in the company. For instance, regulatory bodies have a significant power of influence in the company as the actuarial profession in Ecuador is not highly developed and actuaries have to comply with all regulations in order to provide actuarial services.

Name	Year of Inception	Total operating revenue (Thousands of US\$) 2019	Total operating revenue (Thousands of US\$) 2020	Net Profit Loss (Thousands of US\$) 2019	Net Profit Loss (Thousands of US\$) 2020
Actuaría Consultores S.A.	1987	\$3,882	\$4140	\$1001	\$1,313
Finalidad Actuarial Finac Cía. Ltda.	2000	\$934	\$0	\$2	\$0
Logaritmo Consultoría Matemático Actuarial Cía. Ltda.	1988	\$760	\$737	\$12	\$19
Vélez & Vélez Enterprise Risk Management S.A.	2013	\$378	\$212	\$0	\$0
Volrisk Consultores Actuariales Cía. Ltda.	2011	\$273	\$307	\$17	\$20
Cálculos Actuariales del Pacífico S.A. Actupacsa	2011	\$251	\$142	\$4	\$-5
Coofia S.A.	1994	\$139	\$134	\$2	\$2
Patco Cía. Ltda.	1993	\$139	\$101	\$-3	\$-2

Table 2: Competitors analysis

Furthermore, competitors and suppliers have a moderate power of influence while a relatively high level of interest as ACTUARIA is one of the leading firms in the country. As we can see in the chart, ACTUARIA is the leading consulting firm in the country with a strong market penetration and a consistent brand recognition over the years.

Secondly, employees are the key players and main assets of the company who have enabled its success over the years. The company increased its headcount in recent years going from an average of 55 in 2020 to 61 in 2021. ACTUARIA maintains an open organizational culture in which employees can share their expectations and propose improvements in the management of human talent.

Finally, shareholders and Board of Directors have a similar power of influence in the company, although their level of interest is quite different. This difference arises mainly because the Board of Directors holds a significant interest in achieving the company's strategic and financial objectives, thereby striving for success and accomplishment.

Since the company promotes business practices aligned with the Objectives of Sustainable Development of the United Nations (SDGs), in 2016, ACTUARIA signed the adhesion agreement to the UN Global Compact. The company has been prioritizing the following 5 SDGs:

- Goal 3: Good health and wellbeing
- Goal 4: Quality education
- Goal 5: Gender equality
- Goal 8: Decent work economic growth
- Goal 13: Climate action

ACTUARIA maintains the good practice of conducting at least once a year an analysis of its payroll in order to identify possible gaps. Concurrently, it continues to work on its internal and external procedures with the aim of avoiding gender bias in its publications. The company has identified an annual gender gap of no more than 10% as a strategic indicator.

ACTUARIA maintains long-term investments in forest projects, aware of their importance and impact on these productive sectors, with the potential for growth and opportunities for exports with positive effects on the economy and social development.

To reaffirm its commitment to carry out actions that mitigate the environmental impact derived from its economic activity, ACTUARIA has incorporated the option of choosing a digital version of its actuarial studies on its customer portal with the purpose of reducing the impact of paper use and consumption.

In 2021, ACTUARIA had a Net Sales Revenue of USD 4,112,464 with a Total Assets of USD 4,164,107 and a Net Profit of USD 1,348,590 representing a 32.8% of Net Margin. In the period 2011-2021 the evolution of the Net Profit has been consistent as per the following graphic:

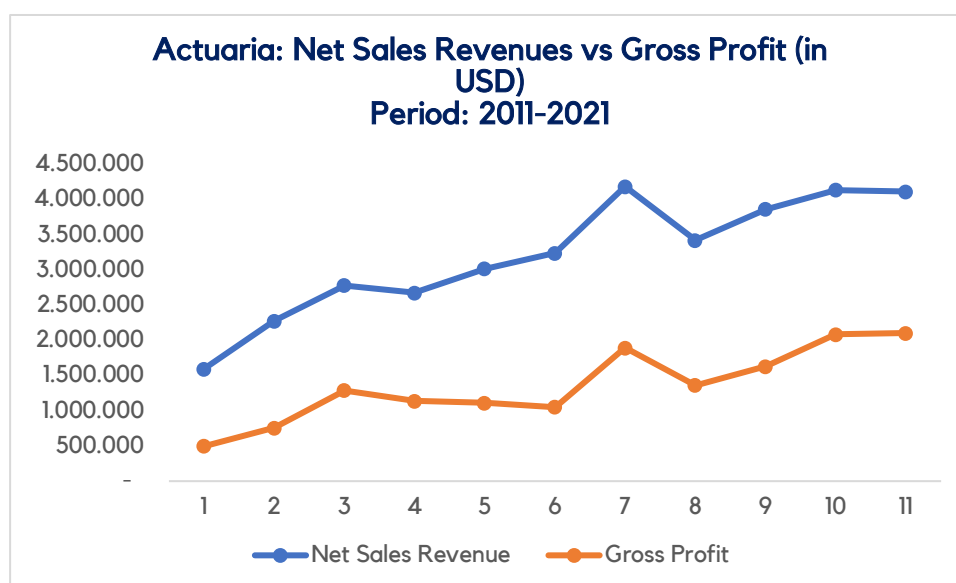


Figure 4: Actuarial Net Sales Revenues vs Gross Profit

The main accounts of the financial statements of ACTUARIA in December 2021 were the following:

Fiscal Period 2021	Thousands USD
Total Operating Income	4,187.00
Net Sales Revenue	4,112.00
Gross Profit	3,424.00
Gross Profit Margin	83.27%
EBIT	2,070.00
Operating Margin	50.34%
EBITDA	2,159.00
EBITDA Margin	52.49%
Net Profit	1,349.00
Net Margin	32.79%
Total Assets	4,164.00
Current Assets	2,652.00
Total Liabilities	1,165.00
Net Debt	-1,067.00
Net Cash Flows	1,238.00

Table 3: Financial statements fiscal period 2021

The financial situation appears to be solid with a high Operating Margin of 50.34% and a Return of Equity of 45%.

As per the workforce, thanks to the fulfillment of the proposed objectives, a variable remuneration equivalent to 25% of the base salary was paid to all personnel in January 2022.

The following table presents the company's situation as of December 2021 of total assets, liabilities, equity, operating income and net income, compared to the situation of previous years:

In Thousand	2017	2018	2019	2020	2021	Variation
Assets	2,789,447	2,258,424	2,835,682	3,783,831	4,253,170	12.4%
Liabilities	1,127,403	787,524	1,008,178	1,344,678	1,254,497	-6.7%
Equity	1,662,044	1,470,900	1,827,504	2,439,153	2,998,673	22.9%
Income	4,186,025	3,546,043	3,909,169	4,172,731	4,233,514	1.5%
Revenues	1,255,602	842,112	1,001,385	1,313,402	1,348,590	2.7%

Table 4: Company's situation as of December 2021

A significant growth of 22.9% in equity is observed in relation to 2020, which translates into a significant increase in cash and cash equivalents due to the level of portfolio collection, a decrease in liabilities due to the reverse of the previously mentioned labor contingent and an increase in retained earnings.

Regarding the company's financial ratios, the ROA in 2021 was 32%, the ROE 45% and the ROI 32%, constituting solid financial ratios.

Financial Ratios	2017	2018	2019	2020	2021	Variation
ROA	45%	37%	35%	35%	32%	-8.7%
ROE	76%	57%	55%	54%	45%	-16.5%
ROI	30%	24%	26%	31%	32%	1.2%

Table 5: Company's financial ratios

During the period January - December 2021, the company had a Profit before taxes of USD 1,788,807, which after income tax represented a total amount of USD 440,217, determining a Net Profit of USD 1,348,591, which resulted in 29.2% of Total Income. This Net Profit is 18% higher than budgeted of USD 1,143,832.

In 2020, ACTUARIA decided to expand into a Limited Company in the city of Madrid in order to obtain the authorization in which the subsidiary could operate in Spain. José Ibarra, current employee of ACTUARIA, was appointed Administrator of the new entity.

During the first months of constituency, a notable effort has been made to create strategic alliances with other actuaries. The company hopes to continue growing in this market and begin to create an important portfolio for customers for the future. This subsidiary has been consolidating its presence in the actuarial consultancy market in Spain, mainly for the mathematical provisions of some mutual societies.

The company has distributed dividends in the last 15 years thanks to its high rate of return resulting in higher financial benefits for the family business that has maximize the value of its assets. However, there is still no protocol for the distribution of this heritage, nor is there a notarized document of inheritance and succession.

Currently, Rodrigo Ibarra is the CEO of ACTUARIA with more than 35 years of experience in the design, valuation and implementation of pension, health, and social security programs. Rodrigo has expressed his interest in retiring in the coming years. Knowing the background of ACTUARIA, the clear problem is that the company currently does not have a generational succession plan.

That is why the main questions to be resolved in this consultancy projects are:

- a) What is the ideal succession plan for a family business?
- b) What should the succession strategy be in a company like ACTUARIA, with national and international experience, once its CEO retires in the coming years and the second generation is set to take over the company?

The opportunity identified for the company consists in defining a succession plan that will guarantee business continuity for future generations in accordance with its strategic mission and vision.

## **2. Strategic vision and mission of the company**

The mission of the company is to value actuarial risks and offer corporate solutions, with an ethical perspective and corporate social responsibility; while the vision is to be the first option in actuarial and corporate solutions through an innovative human talent, the latest technological knowledge, leadership and national and international presence (Actuaria Consultores S.A., 2023).

The strategic vision of the company can be studied through different areas that are explained below:

Regarding their corporate purpose, ACTUARIA seeks to design, manage and evaluate a diversified portfolio of products and services with adequate volume and margin relationships, guaranteeing profitability, scalability and sustainability.

Concerning the market, the strategy consists in designing, managing and evaluating projects and market research, marketing, communication and commercialization programs for the distribution of the organization's product portfolio in the local and international market.

In addition, the company pursues to deepen the technicalities of the organization by incorporating methodologies, tools and techniques of machine learning, artificial intelligence, application development and business intelligence, all these in line with international quality standards.

Finally, from a human resources point of view, the business aims to respond adequately to product and market strategies through the design, management, evaluation and training programs that add value to the core services, while promoting the well-being and development of employees.

### **3. Main objectives for the future**

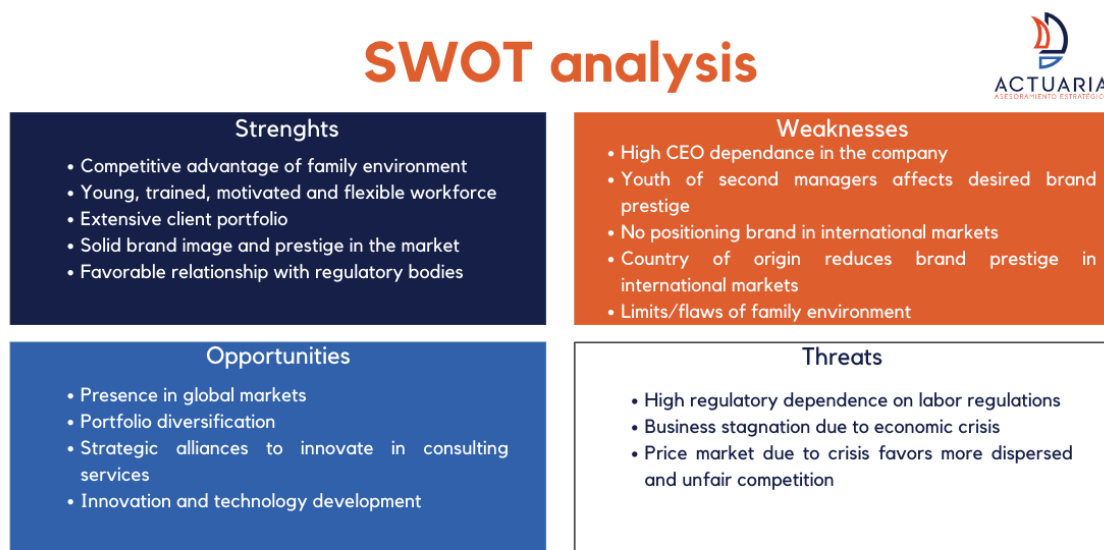
ACTUARIA has five main strategic objectives for the future, all of them aligned with the sustainable development objectives of the UN:

- First of all, ACTUARIA aspires to achieve a diversification of its service portfolio. In this sense, all the efforts are put in order to offer services adapted to client's needs such as artificial intelligence and machine learning. For this purpose, a specialized area has been created in the company.
- Furthermore, the company is looking to expand its services and consolidate their presence in international markets. This constitutes a great opportunity for the company to be a valued benchmark in actuarial consultancy not only in national markets but also internationally. ACTUARIA seeks to have international representation and attract clients in markets outside the country by taking advantage of the technological conditions that make this link possible. The constitution of a branch in Spain represents the gateway to a new market to the company. The additional investment required for the creation of the new entity appeals to various competitive advantages: no additional assets or HR investments are required, only an administrator, who coordinates the commercial and operational services with the parent company in Ecuador, is.
- Another objective is to modernize their main operations to be at the forefront of the latest technological changes. For instance, the ICT department developed a software for clients to access data in an automated and independent way to quickly obtain actuarial studies. Process modernization is also key as the service offered to its clients is of better quality and adapted to emerging market needs.
- To have highly qualified, committed, and satisfied personnel who are capable of providing the best customer service.

- To generate a social, environmental, and economic impact in the medium and long term that continuously improves society.

#### 4. Critical risks for continuity

The main challenges for ACTUARIA would be the continuity of the business, the clarity of the functions and responsibilities of each one of the family members and the economic growth of the firm in the future.



Source: own elaboration

Figure 5: SWOT analysis

The company's strengths play a fundamental role in choosing the best strategies to carry out a successful succession plan. The talented human team, its diversified product portfolio and its national prestige should be factors that will help carry out an orderly succession. Critical risks that can affect business continuity are associated with the change of the CEO as some clients could decide to switch the actuarial provider as the company tends to be seen as a “one man show” through the presence of Rodrigo Ibarra. This high leadership dependency can represent a risk for the company since many clients will have the perception that the absence of the CEO could affect normal operations and ultimately the service will be disrupted.

Furthermore, another risk for the business continuity is the lack of legal security in Ecuador that could affect ACTUARIA’s operations. Labor regulations can be reformed, which could jeopardize ACTUARIA’s operations since its main products are focused on



the actuarial calculation of labor reserves that companies must comply with. This is the reason why in recent years, the firm has expanded into ad-hoc services in order to diversify risks and not depend primarily on one source of revenue.

Undoubtedly, the lack of a defined succession plan could lead to a potential disruption in the business continuity as roles for the various family members are not specified and could result in conflict. There might be false expectations for members of future generations that in the end could harm the business.

The economic growth of the firm plays a key role for its continuity. Due to the global crisis and political uncertainty of the country, ACTUARIA's operations could be affected. In this sense, it is important that the company implement an adequate risk management protocol and a conservative expense policy that will allow them to face uncertainty.

Finally, the company has to evaluate risks related to its strategic goals that are the following:

- Not achieving a profitable and sustainable portfolio of diversified products and services.
- Not establishing a distinctive position as a consulting firm specialized in business solutions based on data management on a national and international scale.
- Not enhancing operational efficiency in both internal processes and products and services.
- Insufficiently competent personnel within the organization.
- Lack of social, environmental, and economic impact on society.

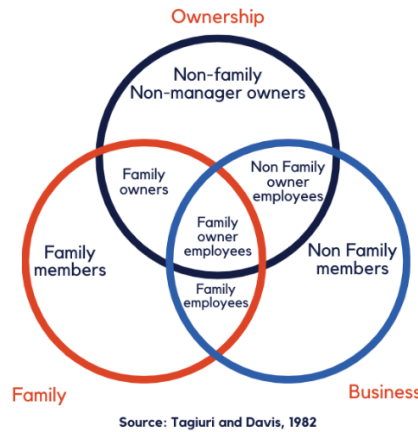
### **III. Theoretical framework of family business**

#### **1. Family component**

Generational succession in family businesses is one of the most important components for the continuous success of companies. Family companies are different from other businesses as the family plays a key role in the dynamics of the various stakeholders on a day-to-day basis (IFB, 2022). As shown in the below chart, family business and

ownership roles often overlap, that is why identifying those roles is essential in order to avoid conflicts and ambiguity within a succession plan.

### Three Circle Model of the Family Business System



Source: Tagiuri and Davis, 1982  
Figure 6: Three Circle Model of the Family Business System

This chart allows us to understand the different identities that family members can have. Identity is a key element to define a family member's roles, responsibilities and adherence towards the company. Understanding these factors is crucial to manage possible conflicts efficiently and avoid ambiguity and confusion amongst family members. Because several generations are involved in a succession plan, a common objective should be identified in order to ensure the continuity of the business in the long term. The family ties tend to become closer as well as the commitment given to the company is set (IFB, 2022). Furthermore, as open and often uncomfortable conversations have to take place, usually families need to learn how to manage expectations and reach consensus.

Currently the company has Rodrigo Ibarra as an appointed CEO who has the majority of ownership. As mentioned previously, Rodrigo Ibarra has expressed his desire to retire in the coming years and as a current pensioner of the social security in Ecuador, he pursues to enjoy retirement after over 30 years of hard work. Despite his retirement interest, he would like to continue collaborating with the company as a director or as an external consultant in some projects where his presence will be of great help, this can be achieved through a civil contract professional service. Rodrigo has been always aligned with the Board of Directors' guidelines and trust that their members will direct and formulate the best strategy plan for the long term.

The family is constituted by Beatriz, Rodrigo's wife, and three sons with various backgrounds, professions and residencies. Beatriz is a lawyer and CEO of a legal study in Quito, Ecuador named Ankla Soluciones Corporativas S.A., that provides a wide range of legal services to its clients. One of their main clients is ACTUARIA, to whom legal and extrajudicial representation services are provided.

The eldest, Sebastián, has a Bachelor in Finance and an executive MBA at the IE University in Madrid. He currently works as a Global Benefits Senior Account Manager at Mercer in New York. Sebastian has worked for ACTUARIA in the past as a Retirement/Consulting Coordinator during the 2010-2013 period. In the short term he has no plans to return to Ecuador, however in the medium and long term he is open to collaborate in the family business.

The middle son, José, currently works for ACTUARIA already as a Corporate Manager since 2019. He has two degrees, one in actuarial sciences by the University in Barcelona and one MBA by the IE University. He has expressed his interest to continue working for the company in the long run. Additionally, he also serves as an Executive member of the Board of Directors.

Finally, the youngest daughter, María Beatriz, is a lawyer with a Master's degree in Private Property Law by the University of Salamanca and current MBA candidate at Comillas Pontifical University. Nowadays, she runs its own law firm with her mother in Quito, Ecuador. This firm was founded in 2016 and provides legal advisory services. They are ACTUARIA's main legal adviser. The company specializes in Insurance, Labor Law, Intellectual Property, Corporate Law and Tax Consulting. Her main objective in the short and medium term is to continue working in the law firm and collaborate with ACTUARIA. As per her current position, she is fully aware of the particularities of the business and understands the main capabilities of ACTUARIA.

To sum up, the family business is composed by the following identities:

- Family owners: Rodrigo and Beatriz
- Family employee: José
- Family members: Sebastián and María Beatriz

### ACTUARIA Three Circle Model of the Family Business System

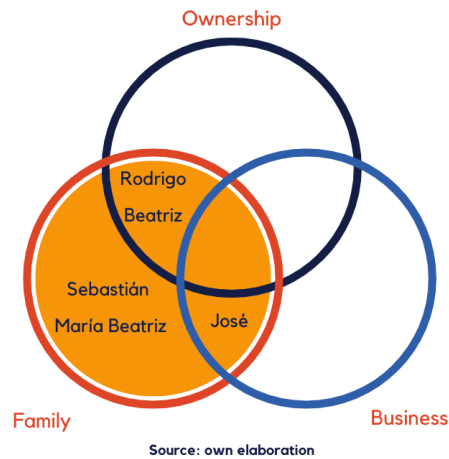


Figure 7: ACTUARIA Three Circle Model of the Family Business System

## 2. Benefits of Family Business

The family component represents a competitive advantage that family businesses should take advantage from. There is no doubt that family companies have precisely that unique characteristic that is to promote a strong sense of belonging and a shared purpose among the various members and owners. One of the benefits of family businesses is the sense of loyalty that family members demonstrate to each other and to the business. In addition to loyalty, legacy in family business creates a feeling of pride since members are incentivized to work for a common purpose to allow future generations to seek business continuity (KPMG, 2011).

For instance, workforce is usually composed by people that are loyal and committed as they are influenced by family owners. It is of extreme value to have employees who share the corporate values of the company and act accordingly. Family businesses have the opportunity to teach and pass on personal and corporate values to the next generations. In addition, in this type of companies, family members are more flexible to occupy different positions within the company and therefore a more collaborative environment is generated.

Similarly, other non-family employees generally feel comfortable working in family business, as the environment tends to be less formal and warmer. Such environment tends to generate closer ties with the family and the business.

Finally, professional development opportunities are created and constitute an important aspect for family businesses. These businesses seek to give family members tools to grow within the company and grow in their professional paths.

### **3. Challenges of Family Business**

One of the challenges of family business is working on corporate governance platforms that undoubtedly help to manage critical situations such as defining a succession plan. As such, a family governance framework should be put in place. Families need rules and guidelines in order to interact in the business. In this sense, having internal policies that specify the various business factors for family members such as compensation, performance and roles, are crucial. Policy making is essential as per the various generational discrepancies that can be implied in a family. Corporate goals and values should be well defined in order to manage expectations and behavioral changes within family members. In a typical family governance framework, there are many elements that family members need to take into consideration, two of these are elaborating a family constitution and having a family council/office (Kazimi, 2012).

To begin, the constitution process is the way families set their statements of intent or agreements within the core business. This method helps families have a consensus of how different issues can be resolved and act as guidelines to manage conflicts. On the other hand, the family council is a group of organized individuals with the sole purpose to set meetings and discussion to establish different policies and aspects that could affect the family. Consequently, the family office helps to control and manage in an adequate manner all family's wealth considering both personal and business expectations and consolidates a unique wealth management plan (Kazimi, 2012).

Moreover, intergenerational conflicts can arise as per the different personalities and visions which set the way the company will operate in the future. For instance, as family members have unique personalities, their work ethic also differs and could result in friction when making strategic decisions for the business (KPMG, 2011). There's no doubt that in order to achieve a successful succession plan, family business have to focus on having a strong corporate governance system as well as the active participation of independent directors. For this, families need to center its attention in putting in place an

effective communication plan and a fair process to ensure that all company's stakeholders have a fair opportunity to share their view in the succession plan.

Another crucial challenge is to train future generations to emerge as leaders. To achieve this, family members need to incur into discussions and identify interest levels and engagement in the company. When it comes to business assets, an honest conversation needs to take place even when it can be awkward to talk about money. It is also necessary to have an independent external advisor who can assist in the succession process or in any potential differences between members.

#### **4. Family Business best practices**

One of the critical challenges of family business is identifying control levels of the company. Many times, the founder does not trust the coming generations and has issues delegating or transferring power. This is why a fair balance must be achieved between control and collaboration. The succession must include a thorough analysis of the responsibilities. Balance between the founder's strategic plan and the flexibility of future leaders will help to have a common long-term vision.

Another good practice is to take into account the prospects of the new generations. The pandemic provided time for families to think about the values that are important to the business and legacy. According to a PWC study, families with written values are more prepared for the succession and are more communicative and transparent (KPMG, 2011).

Making the new generations actively participate in the succession plan generates a culture of collaboration and allows them to feel motivated in the business as they feel that their personal and career aspirations are taken into account. Similarly, behaviors that build trust between generations should be promoted. There must be trust and sincerity. The various generations must know that they can depend on each other to meet the obligations that the business sets as challenges. A successful succession plan builds trust, competence and credibility so that generations can transfer power and authority without jeopardizing the core operations.

Finally, an essential aspect in the generational succession is to ensure that the next generation is ready to run the business. At this point, there may be different interpretations of what ideal preparation and competency means. For many, the new generations must be linked somehow to the top positions competencies or completed higher education programs or even having worked in the company for a few years. For example, a requirement could be having an MBA that provides a broad view of how to manage a business and knowledge about strategy and negotiation. A clear expectation matrix should be agreed upon the various participant where roles, responsibilities and levels of engagement will be defined. Some examples of success such as Walmart, Cargill and L.L, Estée Lauder, among others, serve as evidence that family-owned businesses can successfully undergo generational transitions (Botha, 2019). The conclusion drawn from the analysis of these successful cases is that they strive to achieve what is commonly referred to as the "*4C advantage*". This advantage enables them to compete effectively and is comprised of four key components: continuity, community, connection, and command (Botha, 2019).

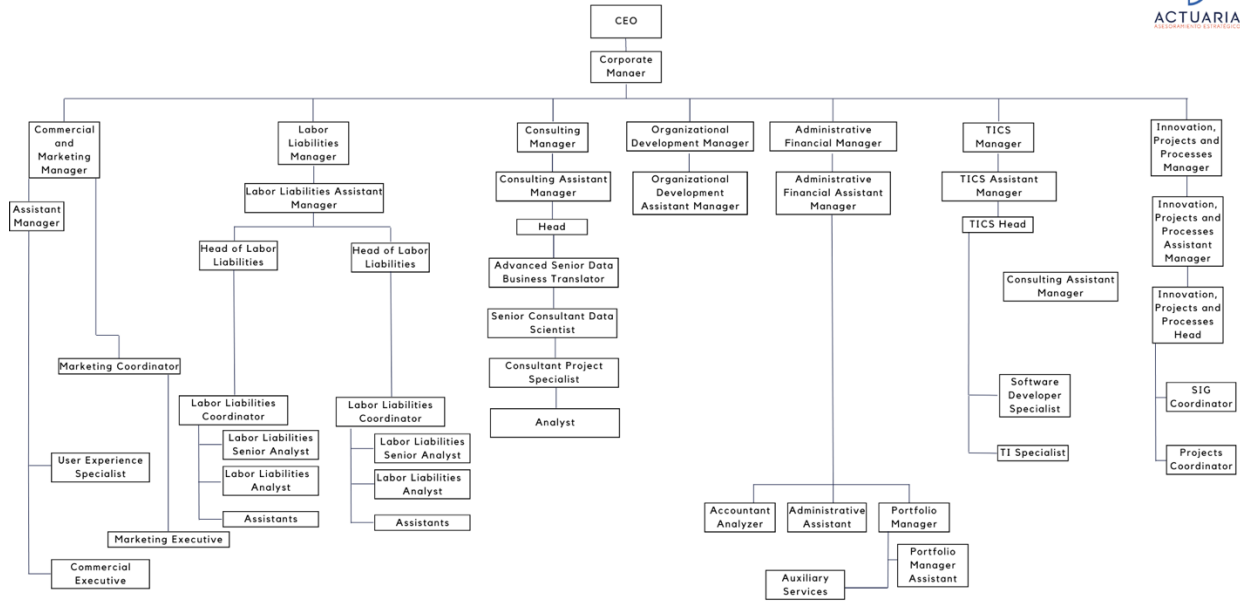
#### **IV. Succession plan alternatives**

##### **1. Potential Alternatives**

Before going into the potential alternatives, it might be interesting outline what the ideal succession plan should look like.

The company has been operating with a functional structure that is aligned with its key areas, and as result, it has successfully achieved most of its goals. This structure has helped the company to operate in a more effective way and to maximize resources since each business area is focused on its specific objectives and goals. While applying the succession plan, the organizational chart should be dynamic and adapt to new circumstances and market and industry trends.

**Organizational Structure  
ACTUARIA CONSULTORES S.A.**



Source: Actuaría Consultores S.A.

Figure 8: Organizational Structure

To guarantee tighter and more reliable customer relationships, ACTUARIA must prioritize providing personalized services at the highest quality. It is imperative that the succession plan does not affect the quality of services provided to the various clients. In this sense, implementing a communication strategy is necessary to maintain clients' trust.

Moreover, it is crucial that the application of the succession plan does not negatively impact employees. The transition should be handled in a smooth and transparent manner to avoid any surprises and maintain a positive morale. ACTUARIA has always valued its employees as one of its biggest assets; this has been possible by investing in flexible remuneration and incentives to maintain high motivation and low turnover rates. Even during the succession planning process, the company must focus in finding the higher performing employees to fit its business needs while maintaining the current positive relationship with its workforce. Transparent communication with employees is essential throughout the process in order to ensure a seamless transition.

In addition, it is critical for shareholders to have confidence that the succession plan results in an optimal outcome for the company. In this regard, the role of directors is crucial, as they are responsible for protecting shareholder rights and approving the succession plan.



In reference to this topic, in recent years, some minority shareholders have transferred ownership of their company shares to their second generation. As a result, one of the possible alternatives, would be that the current CEO, Rodrigo would contemplate transferring partial ownership of the company shares to his sons while retaining the majority stake in the company. Based on the above, it is recommended that 2% of the total shares owned by Rodrigo be transferred to each of his children. As a result, the shareholding structure of the company would be as follows:

**Shareholding Structure** 

Stockholder	%
Rodrigo Ibarra	52.53%
Xavier Moncayo	19.84%
Enrique Rueda	3.97%
Fernando Ruales	3.97%
Luis Romero	3.97%
Fernando Navarro	3.97%
Fideicomiso de Administración SACOPO	3.97%
Sebastián Ibarra	2%
José Ibarra	2%
María Beatriz Ibarra	2%
Antonio Durán Ballén	0.99%
Esteban Vargas	0.40%
Roberto Valdez	0.40%

Source: Actuaría Consultores S.A.

Table 6: Shareholding Structure

Regarding the governance model, as previously stated, ACTUARIA has implemented a policy of Good Corporate Governance and appointed a Board of Directors to establish measures and ensure adherence to the company's mission and vision. The succession plan represents an opportunity to encourage a more proactive involvement from the Directors by forming various committees. Indeed, one of the responsibilities of directors is to form committees within the Board that strengthen its structure and facilitate greater integration and participation of the directors in their tasks (Actuaría Consultores, 2020). In this regard, one suggestion could be the formation of at least three committees. The first of these would be an audit committee to ensure the existence of adequate internal control mechanisms and to guarantee that the external audit is carried out to the highest standards of quality and independence. On the other hand, a remuneration and nomination committee will be of great utility for the company since, through its analysis, fair and equitable compensation parameters can be established for both directors and senior executives' compensation packages. Finally, a corporate social responsibility committee

should be established to ensure compliance with the proposed measures in this area. It is important to note that Corporate Social Responsibility integrates the management of ACTUARIA with a sustainable model of generating value and social benefits, which mainly includes three areas of focus:

a. The educational sphere which includes activities aimed at stakeholder groups related to responsible management of personal, family, and small and medium-sized business finances through a continuous training program.

b. In the social area, culture and sports are promoted from an inclusive and gender-equal perspective, for shareholders, employees, customers, and stakeholders, constantly supporting the organization and development of cultural and sporting events.

c. Within the environmental aspect, all green and environmentally-friendly initiatives for the responsible use and care of renewable and non-renewable natural resources are considered.

By doing so, we can ensure that the Board of Directors is actively engaged in the succession process and that their contributions and insights are fully leveraged to achieve a successful transition. This approach also serves to enhance ACTUARIA's governance practices, ultimately strengthening the organization as a whole. Currently the Board of Directors is made up by five Directors divided into:

- Two Non-Executive Independent Directors
- Two Non-Executive Connected Directors
- One Executive Director

The company should seek to have at least three Non-Executive Independent Directors to guarantee a balance membership and a different vision for the strategy formulation of the company. According to the ODS 5, ACTUARIA is committed to promote inclusivity not only for its employees but also regarding the structure of the Board of Directors. Gender equality is a priority for ACTUARIA and for this reason has appointed two women as Non-Executive Independent Directors. The company has to promote the conformation of a unique and diverse Board of Directors in terms of gender and ethnicity but also people

from different relevant business backgrounds to challenge and supervise the top management with innovative ideas that have real value to ACTUARIA's stakeholders. Having a Board of Directors in a family business can be highly advantageous, as outside directors can provide objectivity and independence in managing the company. Additionally, they can help distinguish the needs of the business from the needs of the family (Cloyd, 2014).

Finally, the company's mission and vision should not be modified once the succession plan has been implemented. It is important to note that in 2021, ACTUARIA carried out a strategic planning exercise with an external consultant to analyze whether the mission and vision were aligned with the organizational strategy, culture, and objectives. This means that with the change of the new successor, the company must continue to remain faithful to its core values and strive to ensure that the new leadership is directed towards achieving the set corporate goals.

Once the current situation and the specific characteristics of the company have been analyzed, the following succession plan alternatives are presented.

The first scenario is to appoint José as CEO and promote one of the current assistant managers as Corporate Manager. For this, it will be of great help that the company distinguishes the high potential employees that have the proper skill and competency set to be promoted to leadership positions. Companies that have specific organizational culture could benefit from recruiting an internal successor (Rothwell, 2022). An internal successor is able to gain the trust and acceptance by colleagues and clients as he is completely aware of the customs, traditions and unwritten rules of the organization.

Consequently, this alternative could be ideal for ACTUARIA knowing that the company has a very specialized product portfolio. For this reason, it is suggested that companies that provide services in complex industries or have very specialized product portfolio, manage the transition through the figure of an internal successor (Rothwell, 2022). In addition, recruiting an internal candidate could bring cost savings for the company and increase productivity since the recruitment and onboarding processes would be avoided. Recruiting an internal employee diminishes the costs related with employee turnover. Also, it's a clear sign that the company trust its employees by having the opportunity to

occupy important positions and consequently gain more experience. Internal recruitment is an effective way for employees to develop and grow in the business. Regarding the cons, having an internal successor could lead some risks as the new candidate could not be ready to accomplish the expected functions. This situation could result in inconvenience within stakeholder's relationship. Moreover, employees could have a biased perception of the successor which can be negative to implement fresh ideas and innovation to the business (Rothwell, 2022).

Perhaps this alternative could be a bit ambitious knowing that José is a relatively young employee who would occupy an important position in the company. If this alternative is applied, the company must ensure that the transition is well managed. For this, a possibility may be that José works for a certain time close to the CEO position so that he can learn more about his responsibilities and the scope of his functions. Rodrigo's role is essential because he is the only leader able to transmit all the specific skills required to manage the company. This transition stage is essential to help the successor acquire specific skills and knowledge. It is suggested that the successor works during a significant period of time in the various areas of the company, so that he is in charge of diverse duties and collaborate with key collaborators (Leotta, 2020).

Having a family member as a CEO could bring advantages for the company as José will be motivated and confident about the ideas that new generations could bring to traditional businesses. The fact that José has worked before in the company is also another positive aspect since employees are familiar with his presence and feel comfortable rather than if it was an external successor. Additionally, if José takes the CEO position, a new member in the Board of Directors should replace him. This could be an opportunity for ACTUARIA to appoint another member for the Board of Directors that ensures that the business is well managed and running in the right direction. Also, José should return to Ecuador, and a local person should be appointed as the Administrator for the Madrid subsidiary.

The second alternative is to appoint an external CEO and keep José as Corporate Manager. Recruiting an external employee to fulfil crucial positions may be positive in some cases given the fact that they can add innovation as well as new ideas and perspectives for a traditional company such as family businesses. External successors

could be the perfect option for companies that are looking to growth (Rothwell, 2022). Furthermore, this type of recruitment is needed when the company does not have any potential employees with the appropriate leadership skills.

External talent could be a suitable option for companies that are missing expertise (Rothwell, 2022). In ACTUARIA's case, this option could be advantageous primarily due to the fact that an external successor could bring an innovative perspective and vision for the company in the long run. Regarding the cons of this figure, undoubtedly it means a longer transition as the external successor will have to immerse in an exhaustive onboarding process. As mentioned before, actuarial services require a very specialized and trained workforce, that is why the role of the external successor would be decisive. In the company there are specific processes and regulations that involve the core of the business.

In this alternative, the company could merge the law firm Ankla Soluciones Corporativas S.A. and create a legal department that fulfills the functions of legal representation. In this sense, the external CEO would be in charge exclusively for taking managerial decision, while the legal department would assume ACTUARIA's legal representation.

Finally, the third possible scenario would be to be prepared for a merger and acquisition of a multinational company for instance Mercer. Unfortunately, the country's political uncertainty plays a fundamental role when making decisions. So, receiving a purchase offer from a multinational company that takes over the management of the company could be a clever alternative. In this alternative, the multinational company would be in charge of managing the company, which would undoubtedly reduce the risk for family members. In the sales process, it is important that certain aspects of great convenience for the family are negotiated. One of them is the possibility that family members can continue working in the company. The family is also guaranteed the right of preference for the purchase of company shares. When analyzing the application of this alternative, the family business must be aware of the motives of potential acquirers and verify if they are consistent with long term objectives. However, the country risk rate is currently very high, and applying a high discount rate would significantly decrease the selling price of the company. This is because the calculation of future cash flows is being discounted to their present value.

Regardless of the type of decision that is made, Rodrigo must consider a sale of his shares to his sons. Taking into account that he currently owns more than 50%, an orderly and gradual plan could be executed to transfer a certain percentage of its shares. If there is an interest on the part of their son to maintain the business in the future and to actively participate in the decisions, it is recommended that they also have a percentage of shares.

## 2. High potential employees

A previous task in order to have a successful succession plan is to distinguish who are the high potential employees in the company. For this, an effective tool is to apply the nine box methodologies that consists of selecting nine parameters to determine which people can be promoted to executive/managerial positions based on their competencies, skills, and innovation in the company's areas of expertise. These high potential employees could in the future have the opportunity to become shareholders to guarantee their presence in the company and not be potential competitors.

The nine box methodologies are labeled with various categories that describe the current and potential performance of an employee.

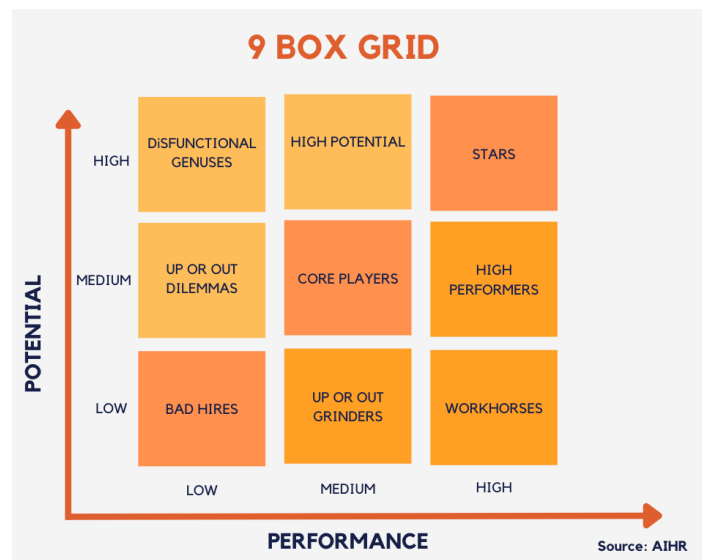


Figure 9: 9 Box Grid

For this succession plan, ACTUARIA must focus in its employees with higher potential and performance. This category is for people who are top performers and have the potential to take on higher level roles and responsibilities in the company. While applying

the succession plan, the company needs to be fully aware of who are its essential employees in order to make the adequate decisions to retain talent. However, as the labor market is dynamic and employee turnover is high for consulting services, ACTUARIA needs to understand that its top performance employees can leave the company (Kahar, 2016). For this reason, the company has to identify the critical positions needed to maintain and support the business. For instance, critical positions are related to the specialized knowledge and expertise required, as such the company has to know if they are in capacity to provide the training and development for its employees. Currently, there are five actuaries that work in the company who have a specialized education and have been developing their skills and competencies throughout the years. Additionally, these workers are rare in the market, since the profession is not highly developed in the country.

### **3. Skill and Competency set needed**

First of all, successors of the family business must have a minimum knowledge in actuarial sciences, data analytics, insurance, finance, and legal regulations that the company must comply with. A basic knowledge in actuarial sciences is required by taking into account that part of its product portfolio is based on the application of actuarial sciences. It should be noted that actuarial science requires specific knowledge in various subjects as well as a continuous training program to keep skills and competencies up to date.

On the other hand, considering the influence that artificial intelligence is having on the business world, the successor requires basic knowledge in data analytics, especially since the company has set a goal to boost its data analytics area in order to stay ahead in the consulting industry. Furthermore, it is required that the successor is aware of the functioning of the insurance market in Ecuador, as an important part of the consultancy services offered by the company are focused on advising insurance and pre-paid medicine companies.

Lastly, the new successor must understand the financial and accounting aspects of the company. In fact, deciding about the major corporate decisions and the operations necessary implies a basic understanding of the way the company is doing financially. In relation with this, it is also crucial that the successor is aware of the legal regulations that

the company has to comply with, especially regarding labor laws in order to avoid any sanction or fine from regulatory agencies.

Concerning the skill and competency set needed, the new CEO must have strategic thinking in order to implement a long-term vision for the company. In the case of ACTUARIA, the role of the CEO is of extreme importance because thanks to his role in the company, he will be able to set an example to innovate in other consulting services and focus on international expansion. In addition, the ideal CEO should also have a strong background in communication. When applying the succession plan, the successor has to be able to win the trust of the company's stakeholders and this can be achieved through an effective and clear communication process. Another important skill required for this position is leadership to motivate employees and build a strong organizational culture. A proper succession process must ensure that the new successor has the commitment to continue the family legacy in the long term and is able to set the conditions to have a sense of belonging for all members in the family including employees who play an important role in showing their support to the successor (Tandiara, Wynsen Darmawan, 2022). Leadership of the new successor plays a key role by promoting creativity and the generation of new ideas inside the company.

## **V. Execution and evaluation**

### **1. Further Action Plan**

Once the alternatives of succession are presented, the evaluation of the different possibilities should refer to the objectives to be achieved with the succession plan and align to the SWOT analysis in order to enhance strengths, reduce weaknesses, take advantage of opportunities and face risks.

After the analysis, the suggestion is to apply the first alternative that is to appoint José as CEO and promote one of the current assistant managers as Corporate Manager. By selecting this alternative, the company could take advantage of its strengths particularly the competitive advantage of the family environment. The possibility of incorporating a young and motivated CEO represents an opportunity for the company to innovate and contribute new ideas in an ever-changing world. Likewise, there is no doubt that the excessive dependence that the company has on its former CEO can be an opportunity for



change, allowing new leaders to emerge within the company. Incorporating a CEO who has experience in other international markets like Spain, can be of great utility in promoting the expansion of the company to other countries. Another important reason for selecting this alternative is the benefits of joining an internal successor who is familiar with internal processes and has in-depth knowledge of the company's operations. The experience that José has gained over these years is of great utility, as he has been able to work as a Corporate Manager, a position with high-impact responsibilities in all areas of the company, as well as being an executive member of the Board of Directors which allowed him to contribute with new ideas for the business.

Considering that one of the weaknesses of the company is its high dependence on its current CEO, the possibility of nominating José as the new CEO can become a strength in order to make the relationship with various stakeholders more dynamic and not solely rely on Rodrigo's presence. The presence of a new CEO with innovative ideas, undoubtedly offers the company a valuable opportunity to redirect its focus towards delivering services that adhere to the highest quality standards. Moreover, it allows for a decreased emphasis on personal relationships solely through the CEO, thereby enabling a more balanced approach to stakeholder engagement.

Typically, family-owned companies are known for placing significant importance on personal relationships. However, this dynamic can potentially work against the company's interests in some cases. Therefore, the objective of ACTUARIA should be to continue operating and managing the company as a multinational corporation. Having a new CEO could be the opportunity to adjust the relationship with the company's stakeholders in the sense that it should be based mainly in the service of quality provided thanks to all the entire team and not just rely on the presence of a single figure.

Similarly, the company currently faces a weakness in terms of its lack of positioning in international markets. Consequently, the decision to appoint José as the successor presents an opportunity, considering his key role in establishing the subsidiary in Madrid, which has provided him with valuable experience in expanding business operations into foreign markets.

Additionally, one of the company's major risks is its high dependence on one of its products, which is managing its clients' labor liabilities. This product must constantly be modified in accordance with changes in the current labor regulations in Ecuador. Undoubtedly, depending on a single product constitutes a risk that can be mitigated with the appointment of a new CEO who promotes portfolio diversification, adapting to market needs and changes. In this sense, the Consulting Department has to be aware of the great opportunity to grow since clients are demanding for more wide-ranging services that include data science advisory. By incorporating data science expertise and providing advisory services in this field, ACTUARIA can enhance its value proposition and effectively address the growing demand for data-driven insights and decision-making support.

After examining the chosen alternative based on the SWOT analysis, the first step is that the CEO of the company should convene with Directors to discuss and approve this alternative. In this meeting the CEO should present this project consultancy with the purpose for Directors to review the possible alternatives and the pros and cons of each one of them. The chart below presents an analysis of the pros and cons associated with each of the three potential alternatives, providing a comprehensive understanding of their application:

POTENTIAL ALTERNATIVES	PROS	CONS
Appoint José Ibarra as CEO	<ul style="list-style-type: none"> <li>• Opportunity to gain the trust and acceptance by colleagues and clients.</li> <li>• Aware of the customs, traditions and unwritten rules of the organization.</li> <li>• Cost savings for the company and increase productivity.</li> <li>• Effective way for employees to develop and grow in the business.</li> <li>• Motivation and confidence about the ideas that new generations could bring to traditional businesses.</li> <li>• Employees are familiar with an internal successor and feel comfortable rather than if it was an external successor.</li> <li>• Family legacy preservation.</li> </ul>	<ul style="list-style-type: none"> <li>• New candidate could not be ready to accomplish the expected functions.</li> <li>• Employees could have a biased perception of the successor which can be negative to implement fresh ideas and innovation to the business.</li> <li>• Skills and competency gaps.</li> <li>• Risk of complacency since the new successor could rely on existing practices without challenging the status quo.</li> </ul>
Appoint an external CEO	<ul style="list-style-type: none"> <li>• Can add innovation as well as new ideas and perspectives for a traditional company such as family businesses.</li> <li>• Professional expertise and skills that may be lacking in the family business.</li> <li>• Impartiality and objectivity in the decision making process.</li> </ul>	<ul style="list-style-type: none"> <li>• Longer transition as the external successor will have to immerse in an exhaustive onboarding process.</li> <li>• Possible loss of family legacy.</li> <li>• Challenges in adapting to the corporate culture of the organization.</li> </ul>
Merger and Acquisition of a multinational company	<ul style="list-style-type: none"> <li>• The multinational company would be in charge of managing the company, which would undoubtedly reduce the risk for family members.</li> </ul>	<ul style="list-style-type: none"> <li>• The country's political uncertainty plays a fundamental role when making decisions.</li> <li>• The country risk rate is currently very high, and applying a high discount rate would significantly decrease the selling price of the company</li> </ul>

Source: own elaboration

Table 7: Pros and Cons Potential Alternatives

In case of any unexpected event, it is recommended that the CEO has a set timeline and smooth transition plan in the event of sudden incapacitation or early departure. In this sense, the CEO should establish recommendations to have the best possible succession arrangements in the future.

Once the Board of Directors has approved the succession plan, the company must focus on the implementation, adaptation and testing stages. Taking into the consideration that José is fully aware about the company's internal processes, the recommendation is that this initial stage will take 3 years. In this period of time, the objective is preparing the new CEO to be ready to occupy the position. To achieve this, the company has to conduct an exhaustive assessment of the successor. Engaging the services of an external consultant to conduct the examination can be considered the most prudent decision as it ensures the avoidance of any potential conflicts of interest while promoting impartiality in the process. This assessment must include an identification of the skills, leadership and management capabilities of the candidate. Also, the amount of experience should be considered as well as the knowledge that the successor has about the industry and the company. Additional topics, such as knowledge of ownership values, as well as the character and personal values of the candidate, play a key role in the evaluation process. (Michaud, 2019).

After the examination, it is suggested to design a development program so the new successor could fill the skill and competencies gaps (Michaud, 2019). In the case of ACTUARIA, the new successor could have formal training in leadership and negotiation skills. Moreover, other important activity consists in the coordination of mentoring programs with external advisors to learn more about the scope of the CEO position (Michaud, 2019). During this period, feedback is crucial since the successor can be aware about what are the expectations and how his performance will improve future activities. An important aspect of the feedback is that it is recommended to be given not by the current CEO but rather by directors, a coach, a non-family manager, among others. As such, the company ensures that feedback is objective and has no bias.

Furthermore, during this stage, it is recommended that José occupies an interim role before taking the official position of CEO. With the objective that he works closely with the CEO, he should assume the role of COO to manage internal operations of the company

first. Although it is difficult to define a COO’s job, the main reasons to create this job position are related to the execution of CEO’s strategy as well as complement the CEO’s knowledge and attitude (Kumar, 2009). At the end, the CEO and the COO will work as a pair in order to lead the company together. Finally with the evaluation process in place and by the time the Board of Directors assess the results, José could be appointed as the new CEO of the company. When this decision is made, a shareholder general meeting should be called to let the shareholders know about this appointment.

The second stage of the communication is to inform about the decision to employees and finally to all the company’s stakeholders. For this, the company should implement a succession strategy that involves a meticulously planned communication campaign and the invaluable support of a reputable advertising agency. By doing so, ACTUARIA can ensure a seamless transition and maintain its stakeholder’s trust and confidence in the business. As a crucial step in the succession planning process, the company should initiate an awareness campaign to inform its clients about the necessity of generational change. This change is justified by the evolving realities of the business landscape, which are influenced by the growing presence of millennial and centennial generations. These generations prioritize technology, gender equality, flexible working arrangements, telecommuting, flexible benefits, environmental protection, among other factors.

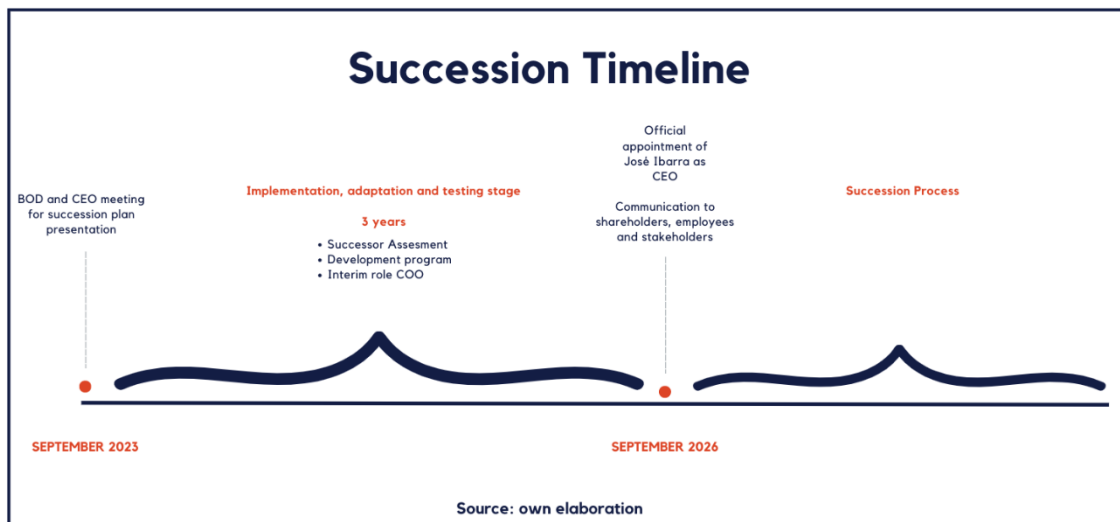


Figure 10: Succession Timeline

## 2. Succession Processes

Once the official appointment of José is made, the company has to focus also in the supporting process of the former CEO. This period of time will be of extreme importance

as the former CEO could need some time to accept the situation and be confident of the decision taken (Michaud, 2019), period that sometimes could be emotional and overwhelming. The former CEO should be aware that his role is still essential in the company as he will be able to mentor the new successor and also, he will continue to have the majority of ownership of the company. In this period of support, the former CEO has to share with the company his expectations and his plans for the future. For instance, he could be interested to continue working as consultant in some particular projects or even consider the possibility to become the Chairman of the Board of Directors. In this stage, an external consultant could participate in order to ensure that the former CEO feels supported and recognized by all his work and leadership throughout the years. The key to a successful succession plan is to start with the right anticipated time so the company can put in place an effective communication structure. Following the best practices for family business will help ACTUARIA to ensure a smooth transition and continued success of the business.

Another important aspect in the succession process to be consider is the coordination and collaboration between the former CEO and the successor. Although it may seem like an irrelevant element, their relationship plays an indispensable role in building trust and serenity to the company's stakeholders. For this reason, it's recommended the participation of both persons in every communication conducted by the company to inform the generational transition. All stakeholders need to have the confidence that the succession plan carried out and therefore the appointment of the new successor has the total support of the former CEO.

Finally, the company has to evaluate the risks associated with the application of the succession plan. One of the risks is that the CEO position cannot be filled in an adequate manner despite the fact that the successor went through an immersive process of training and mentoring. To mitigate this risk the company should reevaluate the plan and evaluate the execution of changes to guarantee that the position is filled in a satisfactory way. Some of these activities are related to the identification of the problem as well to analyze the selection criteria of the company and see if it requires modifications.

Other risks that the company has to be aware are the following:

- Lack of clarity in the communication process
- Deficient training and development for new successor
- Resistance from stakeholders and former CEO
- Loss of key talent during the succession process

Once the company has identified the main risks when applying the succession process, it's easier to establish the strategies and allocate resources accordingly.

Risk	Likelihood	Impact
CEO position cannot be filled in an adequate manner	Medium	High
Lack of clarity in the communication process	Medium	Medium
Deficient training and development for new successor	High	High
Resistance from stakeholders and former CEO	Low	High
Loss of key talent during the succession process	Medium	Medium

Source: own elaboration

Table 8: Risk Matrix

### 3. Benefits for the company

First, with a succession plan the company is ensuring that the process is going to be smooth and well-accompanied. Setting a timeline of the succession plan allows the company to be prepared when the time comes. As mentioned, the continuity of the business is one of the most important priorities for ACTUARIA and this could be achieved by maintaining the relationship that the company has cultivated with its main stakeholders over the years. Additionally, one advantage is that through this plan ACTUARIA is minimizing the possible conflicts that could exist between family members. Since this plan contain the following activities that the company should apply, family members have clarity and confidence about the process. Transparency represents a key element to avoid conflicts and disputes that could arise in the succession process.

Moreover, the family business is guaranteeing that legacy will be preserved in the next generation and all the set of values and traditions will be remained. Knowing the characteristics of the company, legacy is essential for continuing being one of the leaders

in the consulting industry in the country. Finally, working on a succession plan can help in the decision-making process inside the company. With a clear and coherent plan, family members and employees will have certainty that the company can make better decisions about the business and ensure the long-term success.

#### **4. Experience and observations**

The company has to know that the succession plan like other processes, need to be revisited in order to see if any change has to be made according to the business circumstances as well of the family (Fitzgerald, 2021). During the succession process the Board of Directors has to actively participate in the evaluation of the new successor since its main objective is to lead, guide and consolidate the team that contributes towards achieving the company's goals and objectives. ACTUARIA must continue to conduct annual evaluation to track the improvements of the performance of its employees. Over the years, ACTUARIA has the tradition to evaluate its employees annually with its own tool. This 360° evaluation is a performance measurement tool that consists of a comprehensive evaluation, as it provides a perception of performance, as well as information regarding how a collaborator is perceived by their team.

#### **VI. Conclusions**

In order to apply a succession plan, the first step is to analyze the current situation of the company as well as its main objectives for the future and critical risks for continuity. In the case of ACTUARIA, the majority of its ownership and control lies within the family therefore can be considered as a family business. For this reason, the company should take advantage of the family component to have a successful succession plan.

When analyzing the family component, it's essential to have clarity regarding the different family members identities, in order to avoid uncertainty and confusion about the expectations that some of them could have about the business. There's no doubt that family businesses have several advantages comparing with other kind of businesses such as the strong sense of belonging and commitment in its workforce that allows the company to have a solid and stable organizational culture.

However, this kind of businesses have challenges that need to be discussed between all family members in order to apply the best strategies to reduce risks. One of them is lacking of a well-structured plan to ensure a generational transition. For this, setting a succession plan is one of the crucial challenges for family businesses. Having rules and guidelines help to avoid any generational discrepancies that could appear between family members.

To analyze the potential alternatives, it's important to outline what the ideal succession plan should look like taking into consideration the strengths, opportunities, weaknesses and threats of the company. In this sense, it's recommended that ACTUARIA appoints José as new successor and designates a new person to occupy the Corporate Manager position.

Additionally, one of the most important stages in the succession plan is to ensure that next generation is ready and has the set of skills and competencies needed to run the business. The company must provide training and development to the new successor, with the purpose of bridging the gaps between the position's requirements and the new CEO's current skill set as assessed. In order to have transparency during the succession process, the company must establish the minimum requirements to occupy the CEO position that includes specific knowledge in relevant business areas, having an MBA or even having worked in the company for a period of time.

During the succession process, the company should elaborate a risk matrix with the purpose of identifying the possible risks by applying a succession plan. Some of the risks could be the lack of clarity in the communication process, the deficient training on the new successor, resistance from stakeholders and former CEO and loss of key talent during the succession. Once the company has established a risk matrix, the Board of Directors and the management team will be able to set the strategies to mitigate the possible effects and allocate resources accordingly.

Recruiting an internal successor can have benefits for a family business. One of them is that the internal successor is aware of the organizational structure of the company as well as the customs, traditions and values that are set in the family business. Consequently, the company could benefit since there won't be an onboarding and recruitment process.



Furthermore, another positive aspect is the fact that the internal successor is familiarized with employees, situation that enables to promote an environment of collaboration and participation.

Undoubtedly, the role of the former CEO in the succession process is significant as he will mentor and transmit all the specific knowledge to occupy an important position in the company. Therefore, one recommendation is that the new successor works closely with the CEO for a period of time in order to gain experience, and to evaluate his performance to see the opportunities for improvement. The evaluation stage has to consider some regular feedback for the new successor from an independent point of view like directors, external consultants among others.

Finally, communication is essential in order to ensure trust and confidence of the company's stakeholders. One suggestion is that in every communication conducted by the company it must include the presence of the former CEO so that clients know that the generational transition is completely supported by him.

## VII. References

- Academy to Innovate (AIHR). (2021). The 9 Box Grid: A Practitioner's Guide. <https://www.aihr.com/blog/9-box-grid/>
- Actuaria Consultores S.A. Good Corporate Governance. [https://actuaria.com.ec/wp-content/uploads/2020/11/ACTUARIA\\_Codigo\\_de\\_Buen\\_Gobierno\\_Corporativo.pdf](https://actuaria.com.ec/wp-content/uploads/2020/11/ACTUARIA_Codigo_de_Buen_Gobierno_Corporativo.pdf)
- Actuaria Consultores S.A. <https://actuaria.com.ec/es/>
- Botha, F. (n.d.). The 5 Cs of Family Business Success. [online] Forbes. Available at: <https://www.forbes.com/sites/francoisbotha/2019/11/28/the-5-cs-of-family-business-success/?sh=50022d5ad281>.
- Cloyd, M.A. (2014). What is a Board's Role in a Family Business? Harvard.edu. Available at: <https://corpgov.law.harvard.edu/2014/07/30/what-is-a-boards-role-in-a-family-business/>.
- Kahar, H. (2016). Identifying Key Positions Within Your Organization; Succession Planning! <https://www.linkedin.com/pulse/identifying-key-positions-within-your-organization-hassan/>
- Kazimi, A et al., (2012). Family Businesses: Addressing the challenges faced in today's environment. *Deloitte*. [https://www2.deloitte.com/content/dam/Deloitte/xs/Documents/About-Deloitte/mepovdocuments/mepov8/dtme\\_mepov8\\_family-businesses.pdf](https://www2.deloitte.com/content/dam/Deloitte/xs/Documents/About-Deloitte/mepovdocuments/mepov8/dtme_mepov8_family-businesses.pdf)
- Kumar, A, Meenakshi, N. Organizational Behavior: A Modern Approach. (2009). India: Vikas Publishing House Pvt Limited.
- Leotta, A. (2020) Management Controlling and Governance of Family Businesses
- Michaud, P, et al., (2019). CEO Succession in the Family Business a Better Plan for Success. *Cambridge Institute for Family Enterprise*. [https://cfeg.com/wp-content/uploads/2018/02/CEO-Succession-in-the-Family-Business\\_0518.pdf](https://cfeg.com/wp-content/uploads/2018/02/CEO-Succession-in-the-Family-Business_0518.pdf)
- Fitzgerald, S. (2021, June 2). Succession planning for family businesses: What you need to know. PwC. <https://www.pwc.com/ca/en/private-company/family-enterprise-services/succession-planning-for-family-businesses.html>
- Rothwell, W and Prescott, R. (2022). Succession Planning for Small and Family Businesses. [https://www.google.vg/books/edition/Succession\\_Planning\\_for\\_Small\\_and\\_Family/kPiBEAAAQBAJ?hl=es-419&gbpv=0](https://www.google.vg/books/edition/Succession_Planning_for_Small_and_Family/kPiBEAAAQBAJ?hl=es-419&gbpv=0)

Tandiara, W. (2022). Family Business Succession: Owners and Successors Perspectives.

<https://sumc.lt/index.php/se/article/download/1384/1064>

Theoretical Insights and Empirical Evidence from Italy.

[https://www.google.vg/books/edition/Management\\_Controlling\\_and\\_Governance\\_of/UFj4DwAAQBAJ?hl=es-419&gbpv=0](https://www.google.vg/books/edition/Management_Controlling_and_Governance_of/UFj4DwAAQBAJ?hl=es-419&gbpv=0)

Walsh, G. (2011). Family Business Succession. Managing the All-Important Family

Component. *KPMG LLP, a Canadian limited liability partnership and a member*

*firm of the KPMG network of independent member firms affiliated with KPMG*

*International Cooperative (“KPMG International”), a Swiss entity.*

<https://assets.kpmg.com/content/dam/kpmg/pdf/2015/07/3468-succession.pdf>