

S U C C E S S I O N

Succession

The essentials

PETER LEACH 

S U C C E S S I O N

The key to successful succession is careful planning. By anticipating challenges before they arise and agreeing how they should best be handled, succession need not be a fraught process and the family and business can live harmoniously together for generations to come.

S U C C E S S I O N

Succession presents families with a complex set of practical commercial options that have to be considered against a backdrop of bewildering psychological, emotional and cultural pressures. Many business owners, reluctant to give up control and preferring not to confront this difficult issue, decide that avoiding the subject is the best course for them. So, it is no surprise that less than 24 per cent of family businesses survive through to the second generation and only 13 per cent make it through to the third.

The following pages describe some of the critical issues that need to be considered when thinking about succession in your family business, both in terms of leadership and ownership.

We hope that you find this guide useful.

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"In preparing for battle I have
always found that plans are useless,
but planning is indispensable."

Dwight D Eisenhower

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Structure

The relationship between family and business is not always a smooth one and this relationship can be placed under even greater pressure whilst succession is in the air. Notwithstanding difficult personalities and business problems, if the structure of the family and the business are carefully planned and considered, the family and the business should be able to handle most eventualities.

Structure defines the boundaries between family and business and makes it far easier to manage the expectations of those involved in succession. Key to structure is ensuring each individual gains a clear understanding of their roles and responsibilities, as a family member, shareholder, employee or all three.

There is however no 'one size fits all solution'. What is important in creating structure is that the buy-in and commitment of all those affected is obtained. This will ensure that any governance mechanisms created are acceptable to all and meets their requirements.

"What we leave in our children
should concern us more than what
we leave to them."

Gallo

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Unity and Values

A family's values show themselves in all sorts of ways: customs, anecdotes and unwritten codes of conduct that influence how and why things really get done. They are handed down through the family often without anyone even recognising that this is occurring.

Even though values pass down subconsciously, spending time with one another and articulating and exploring common values is essential as a business passes down through generations of family ownership. The more a family grows and disburses geographically and culturally, the more shared values are called upon to act as the glue binding them, giving the members of the family a compelling rationale for staying together as one.

It's essential for family members, regardless of their involvement in the business, to explore the extent to which they share a set of common values and decide whether they have the desire to work together going forward. The family who are left will be a group of owners fully committed to each other and supportive of the family enterprise long-term.

"To improve communications,
work not on the utterer,
but the recipient."

Peter Drucker

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Communication, communication, communication

Communication between family members is often taken for granted. Frequently key issues can be swept under the carpet as they are considered too difficult or sensitive to address. In ensuring successful succession, families must be encouraged to communicate openly and frankly and not leave discussions ambiguous and vague.

Creating an open and safe environment for communication between family members is essential for the real issues to be tackled. Empowering the family to discuss the 'undiscussable' in a professional manner will help put an end to unrealistic assumptions. It should also provide the family with a clear steer from the business, helping to manage expectations and address any questions that arise.

Successful families are those that spend time with one another and learn to communicate openly, even away from the business. A family that plays together, stays together.

"They always say time changes things, but you actually have to change them yourself."

Andy Warhol

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Change

Many family businesses are reluctant to change the way they do things. We often hear people saying, "Grandfather would turn in his grave if we did it like that". However, in today's dynamic business environment, change is essential for growth. The only alternative is failure.

When a family business is passing from one generation to the next, it is important for both generations to recognise that they each will inevitably have different ways of doing things.

In order to create a smooth and successful transition, a balance must be found that gives the younger generation the feeling they can influence and moderate the way things are done whilst ensuring that respect for the older generation's traditional ways and values are maintained.

Good process, transparency and open communication will prevent feelings of frustration and conflict arising and should guarantee that necessary changes are implemented in a systematic, controlled manner, securing the success of the company, the financial security of the older generation and empowering the younger generation who view the business as their future.

"Education's purpose is to
replace an empty mind with an
open one."

Malcolm Forbes

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Education and development

Preparing the next generation to take over the mantle of the family business is a process that is often taken for granted by a family. Overlook it at your peril!

To ensure smooth succession, careful thought needs to be dedicated to developing the next generation so that they can make informed decisions about their futures as responsible owners and if appropriate, potential managers of the business at the suitable time.

If the next generation join the family business, they are often entering what is a much bigger and more sophisticated business than the generation before them. The skills needed to run it change from the initial entrepreneurial skill set exhibited by a founder, yet this is often all that the next generation get to learn.

In addition, responsible ownership and stewardship can only be achieved with a full understanding of the roles and responsibilities that accompany a shareholding. The best way this can be achieved is through education.

A philosophy of lifelong learning in a business family will provide the edge that helps ensure longevity and smooth succession.

"Live so that when your children think of fairness, they think of you."

H Jackson Brown

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Shares

When planning succession, significant consideration needs to be given to the future ownership of the business. This often presents parents with difficult choices. How can they treat their children fairly? Is that achieved by giving them equal shares or should the business remain only in the hands of those working in it? Should the shares be placed in trust? Should the votes be split from the economic benefit?

The wider the shares are dispersed, both in terms of number of people and geographical location, the more complex the long-term ownership of the business becomes. This does not make it impossible but requires careful planning and structuring.

The succession of ownership of the business may have complex tax and legal implications and therefore it is best to plan well in advance to allow ample time for efficient plans to be drawn up and enacted. Most important however is to discuss and explain those plans with your successors to ensure they understand your vision and your plans and ensure they are properly prepared to take over at the appropriate time.

"We don't inherit the world
from our parents, we borrow it
from our children"

Sioux Indians

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Stewardship

The long-term vision for many families is to keep the business within the family. For each generation to be stewards of the 'family silver' for future generations. If this is the case, the family must discuss and articulate this vision clearly so that everyone understands his or her responsibilities towards it and so that expectations are carefully managed.

Successful succession from one generation to another is vital for the stewardship model to be perpetuated. Only 13 per cent of families make it past the third generation yet it can be achieved with careful planning. Consider Hoshi Ryokan in Japan, now in the 46th generation of the same family.

A Family Constitution may be useful as it can help a family to codify their vision and practices for the future in order to manage expectations and provide clarity for the current and future generations.

"The highest reward for man's toil
is not what he gets for it, but what he
becomes by it."

John Ruskin

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Incentives

Many family businesses enjoy a high degree of staff and family loyalty, a tremendous strength for the long-term success and sustainability of the family firm.

In planning the succession of the business it is important to consider the financial incentives on offer to those working within the business, both family and non-family, to ensure that they are being correctly rewarded for their efforts. This may not only take the form of basic salaries but also includes sharing in the success of the business. Depending on the family's long-term vision, equity ownership may not be an option, in which case other forms of reward should be considered such as phantom shares or participation in a profit related bonus scheme.

It is also important to ensure that there is no confusion between the rewards that family members enjoy by virtue of their ownership of the business (dividends) and the salary that they earn for the work that they do. Family members should be paid on merit and receive a market rate for the role they perform in order to gain the respect of other employees within the company. Any other form of income should be dealt with privately by the family, away from the business.

"I advise people never to give advice."

PGWoodhouse

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Outsiders

Outsiders can play a pivotal role within the family business, particularly during the succession process and their importance should not be underestimated. Their involvement can range from professional senior management within the business, non-executive directors or trusted professional advisers.

Outsiders can bring a wealth of experience and objectivity to the table. They can help to bridge the gap between generations, acting as a 'caretaker' if the younger generation are not yet ready to take over the reins. They can act as mediators when conversations between the generations become difficult and they can help to mentor the next generation, in what can often feel a lonely and isolated place to work.

For outsiders to be able to play a meaningful role in the succession process, they must be trusted by both generations. It is often helpful if both generations have a hand in their selection so that they do not feel that they are the agent of one particular generation.

"Coming together is a beginning,
keeping together is progress,
working together is success."

Henry Ford

Next steps

We hope this guide has been useful in explaining some of the issues that need to be thought about when facing the challenge of succession.

There is a fair amount to consider but there are many families that have successfully been through the transition and have survived to tell the tale. Family members need a well structured and systematic approach if they are to manage their succession smoothly.

It is important to recognise that all family businesses are unique and, in a given set of circumstances, there are rarely 'right' or 'wrong' answers. Saying that it is also important to learn from the experiences of others. There are guiding principles, approaches and problem-solving techniques that can help you through your succession planning process... you don't need to face this alone.

PETER LEACH 

14 Manchester Square
London, W1U 3PP

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