Family Business Part 4 – Succession Planning

Handing over the business to the next generation can be one of the most difficult issues the founder of a business has to face

Many businesses become so dependent on one dominant personality that people question how the business will fare when the time comes for them to retire.

What will Apple be without Steve Jobs? Will News Corporation be a good investment on the day Rupert Murdoch retires? And will Virgin Group remain intact if Richard Branson falls out of a balloon? How has the market and business strategy at Microsoft been affected by the "retirement" of Bill Gates?

One of the most important tasks facing the chief executive of any company is arranging for their own replacement. This is difficult in a major company that can offer the terms needed to attract the world's best executive talent. But it is more problematical in a family business.

One of the most important tasks facing the chief executive of any company is arranging for their own replacement

Imagine the position. After years spent building a successful family business, it is time for the founder to retire and s/he has to decide who should take over.

There may be people from the next generation of family members that have worked in the business all their lives; there may be others that have gained outside business experience. But are any of them up to the job - would the founder and the family gain more by selling out now rather than risking the future on an untried successor?

Less than 25 per cent of family businesses in Europe survive to the second generation; less than 10 per cent to the third. And the main reason for this has been cited as being the inability of businesses to resolve family succession issues.

Earlier in this series of articles we discussed the difficulties that exist in many family businesses in relationships, especially between fathers and sons. While ideally decisions on succession should be taken on rational business grounds (what's best for the business is ultimately probably best for the family too) in most cases emotions and psychology take over.

As we have frequently seen, founders can be very reluctant to let go and so put off thinking about the problem until they are forced into it, perhaps by diminishing health.

We believe that succession is a topic to be faced up to early. Ideally it should be openly discussed at a family forum (see our earlier article) where the key issues can be aired and later revisited as economic and family circumstances change. Areas to look at include:

- the family or non-family members available to take over the business;

- how shares should be handed on to future generations (should the next chief executive have majority control?);

- arrangements for funding the founder's retirement (is there an adequate pension in place, or will s/he be looking to extract further cash from the business?);

- would the maximum benefit be gained by selling out;

- the tax consequences of the alternatives.

Succession should not be seen as an event, rather a process to be carefully managed over a long period

Succession should not be seen as an event, rather a process to be carefully managed over a long period. There will be problems from unexpected quarters along the way (it is not unknown for a founder's wife to be reluctant to have him at home all the time - and she may see her own status as diminished by his retirement). But the sooner work starts on planning the transition, the better.

We are happy to discuss this series and the issues arising - we have provided support for many businesses in handling this process. To find out more, please contact Jon Stacey on 01752 203647 or jonstacey@rileycom.co.uk