FAMILY BUSINESS

Managing succession

The exact statistics vary but the message is consistent: many family businesses struggle with succession issues. In some cases the problems which arise can threaten the chances of the business remaining within family control, or even its survival.

Is a plan necessary?

Yes. There are various reasons why succession planning should be a priority. Firstly, the unforeseen can happen and every business should have contingency plans to address a range of possible situations.

For example, if the owner-manager of a business becomes ill or even dies unexpectedly, the business will need someone who can fill the gap. This means not only stepping into the role, but also knowing the contacts and being able to ensure that there is business continuity. It is also important to manage the expectations of the next generation – can they join the business? If so when, what training or selection procedure is involved and how long will it take? Failure to address this at an early stage could result in talented family members looking elsewhere for roles.

Equally, failure to plan for succession could mean that you miss out on valuable financial opportunities (such as entrepreneurs' relief), and failure to plan sufficiently carefully for retirement could mean that you are forced to continue in the business longer than expected. Finally, it is worth at least considering the effect of marital break-up on the business: would the assets be divided, and even if they were not, what impact would it have if some of the shares were held by a person who was no longer part of the family?

Why is planning so often overlooked?

Most of the problems listed above can be avoided with careful prior planning. Why then do so many family businesses fail to plan for succession (according to the Association of Chartered Certified Accountants almost half of all family businesses have no succession plan)? The main reasons are the pressures of everyday business life and the fact that succession sometimes raises difficult issues which owners are reluctant to face.

So what are the first steps?

- Firstly, involve all the family in the planning process and agree what you want to achieve. It is important that everyone agrees the plan and that it is not based on any false assumptions (for example that a child does (or doesn't) want to join the business). If it transpires that no one is genuinely keen to take over the business you may need to consider other options (such as bringing in professional managers) which need time to effect.
- Write down what you have agreed and review it on a regular basis to make sure that it remains relevant. Succession planning is not something that can be achieved instantly – it is an evolving process.
- allow enough time: the next generation needs time to learn the business, to build contacts and to assume responsibility gradually. Equally, the owner-manager who is stepping back may want to define his on-going role and will need time to ensure that he has financial security in retirement.
- be realistic about your own plans. When would you like to retire and how do the finances need to work to ensure that you have financial independence in retirement? There will be additional pressure on the business if your successor is running it for your retirement income too.
- ensure you have made a will.
- finally, start now. If nothing else, it will be a weight off your mind to know that you have taken steps to protect the future of the business.

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