

## What can succession within a family business mean?

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- Understand the various aspects to consider when it comes to family business succession.
- Explain how to approach succession conversations within family businesses.
- Describe the practicalities of dealing with family succession or a business sale.

'Does your family have a succession plan?' This is one of the most common themes of research in respect of family businesses, and one of the most constant findings from these studies is that a sizeable number – getting close to a majority based on some reports – do not.

For those that do, the question of whether it has been written down and communicated to the rest of the family usually reveals very few have taken that additional step. With barely more than one in 10 family businesses making it to a third generation of ownership, it is worth thinking about how a family business can get succession right.

### Think about it

The first crucial step to getting succession right is actually taking the time to think about succession and what it means for the family and whether it is something that the family wants – it should not be assumed that a family business should continue just because it has existed and endured. Part of the challenge internally should be ensuring that the next generation wants to be involved and take on the business.

Taking the time to plan successfully consists of two elements:

1. Deliberately marking time out of the calendar to consider – with independent support, which can be trusted non-executive, non-family directors, independent advisers or other people experienced in the family business world – what a plan should look like and to document this.
2. Taking time to discuss the plan with the whole family, not just the members of family involved in the business or that are going to be involved in the business. There should be wide support and transparency about the plans to make it a successful succession.

The plan should be a living plan that is considered, revised and adapted as time goes by, and as circumstances may change. It would be a mistake to consider it a one-off exercise with a plan left in a drawer to be found and implemented at a later date.

The planning can take years to ensure the transition will be successful. In one of the more recent high-profile examples, it was reported that Marta Ortega Perez – who is taking over the family business most well-known for owning Zara – was prepared for more than a decade to take on the leadership role.

Other critical factors in managing a successful succession include:

- Bringing the family into the business early, if that is the plan.

This will give them time to learn about the business, the people that make up the business, the values and the culture and give them the chance to understand what makes the business on their own terms.

This will also allow them the time to build their own reputation within the business, so they have built trust and respect. When the time comes to be progressed, it does not look like an outsider with the right surname being parachuted in, but a trusted colleague who knows the business.

- Ignoring the surname in the workplace.

From a leader's perspective as head of a family business, you should try to overcome any risk or perception that someone is in a role because of who they are. Every family member in the business should have a clear sense that they will be judged to the same standards or higher than other staff and that there will be no favours.

From a family member's perspective, you need to show expertise and competence in the role and you need to be aware of the boundaries of your role in the workplace. I have heard of at least one business where, following succession, the first act taken was to remove family members from the business because they used their name to overstep their authority, demanded actions that countermanded more senior employees because of who they were and harmed the business culture and performance.

That is an extreme example, but battling the belief among staff that you are acting in a way you could not if you were not family is a challenge to be overcome.

- Ensuring family members have the right expertise, experience and credentials.

A business would not hire a non-family member without the right qualifications and experience or promote someone without having proven their worth. So do not be afraid to ensure that a family member being ear-marked as part of the succession plan is given the right training and the chance to have the right experience.

This can even involve them starting in a different career or at a different company. I have seen family members qualify and work at professional services companies, learn their trade and their profession, and then take that experience back into the family business. Allowing a family member time outside of the family business will not prevent them being part of the future if it is managed correctly.

### **But what if the plan is to sell the business?**

For some family businesses, the right decision is to sell the business rather than create and implement a succession plan. The decision to sell can be a hard one and most family businesses are unlikely to have gone through a sales process before.

Getting to the point of selling the business can come from a number of factors, which might include:

- Demand from different generations with different expectations.

The classic tension in a family business is the leading generation being focused on capital growth and wanting income, while the next leadership generation is less concerned with income and want to ensure money is invested in the business.

The generations behind that are often encouraged to pursue other ventures, which can result in them not being overly concerned with the future of the business itself, but happy to receive healthy dividends or a slice of the proceeds of a sale.

When this occurs you are either going to have to come up with strategies to meet all competing demands – perhaps an internal market within the family to buy shares so that cash is available, or to ensure that appropriate trust structures are put in place that will provide access to funds when needed

for the family – or it is likely the business will come to point of conflict within the family and need to be sold.

- The challenge of taking a business in a different direction.

An industry might have to re-invent itself, a business may have to pivot, a sector may become unfashionable and in those circumstances sometimes the honest answer may be that a family business does not have the expertise, the energy or the desire to change the business to adapt. In this case, selling to someone who can might be the best option.

- It might just be the right time to sell.

A family may come together and realise that succession might actually be cashing in on the successful growth of the business, passing the business on to someone else and to take the proceeds and split it among the family to pursue new and different ventures.

It can be hard for a family to acknowledge, but the fact that a business has been a family business does not mean it always has to be the same family business, different generations and different dynasties can be started from the proceeds of a previous one.

### **Who to sell to**

Having determined to sell the business the key challenge is then who to sell to? The market available will depend on the industry and the sector to some extent, but it is also fair to say that any successful business, particularly in the case of family businesses, which are often those with an interesting history and backstory, are likely to have a number of routes to sale.

So, a family business looking to sell would do well to think about who to market to. Is there a competitor or other trade buyer who would be keen to acquire the business? Is it a market that private equity is interested in and might want to back non-family management in taking over the business?

Or, more commonly than ever, is there a family office or wealth fund interested in the business? The challenge here is – if there is not an obvious buyer – to get good advice.

Retaining the services of a good, well-connected corporate finance adviser who can access the different possible buyers and who knows who is interested in making acquisitions is vital.

They will also be able to help value the business and ensure the price holds up through the sales process, and be an important part of any sales team. This is particularly true if one area of interest is accessing family offices, as there is no single place to access this source of funds and buyers, and having a well-connected team around you will be crucial.

Be aware of what the business is. In the case of a family business, this is not just the fact it makes widgets, this is the whole history of the business, its role in the community, its back story and what it has become. It makes the pitching of a sales opportunity easier if you get behind the numbers and paint a picture of what the business is about.

You should be prepared to answer questions about environmental, social and governance factors, and be able to tell the ESG story of the business.

Many family businesses have been at the forefront of ESG without realising it, as the ethos of a family businesses is usually rooted in the E, S or G – particularly the E and S as the role in communities is often an important part of the values of a businesses, as well as taking care of the business and its people

through different cycles and generations. Being able to talk about this aspect of your business will add value and increase the chance of a successful sale.

Whether you are planning for succession or planning for a sale, the key thing is to make sure there is transparency within the family and to be able to sell the vision of the values and the culture that have led to the success of the business.

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