10.2 Handing over

If your business is a family business, you may have a strong preference to pass it on to your children—particularly if you inherited it from your parents. If your children have grown up in and around the business, they may also be keen to take it over when the time is right. But family succession is not always a done deal, and timely succession planning is very important.

30% of family businesses survive into the second generation, and only 13% into the third generation. An Australian study undertaken by RMIT in 2003 found that the average age of family business owners was 56 years, 68% of owners intended to retire over the next 10 years, 82% of owners regard succession and retirement planning as important, 32% of owners wanted their business to remain a family business—yet only 25% had sought professional succession planning advice, and only 24% had a written plan.

Many business owners put off succession planning because they are too busy, or because they do not want to think about leaving the business, retiring or dying. But these are facts of life, and the sooner you face up to them honestly, the better.

Are your children right?

Don't assume your children are the right people to take over the business. They may not have the aptitude or skills to take the business forward. Be warned: their view of their own capabilities may differ from your view.

Worse still, your children may have competing ambitions. If several siblings all want to be the managing director, expect trouble. The situation can get even more complicated where extended family and non-family members are involved.

Alternatively, your children may not have a passion for the business, and may see it simply as a source of income and wealth to be harvested. The business is unlikely to prosper in this environment, and you might be better to sell the business as a going concern to somebody who will develop it, and leave the capital value to your children. Another option is to install a professional management team and external directors, and allow your children access to the dividend stream, but not day to day management.

Your children may not even want to take over the business. They may have seen how hard you have worked, and decided that level of commitment was not for them. They may be more interested in pursuing a career in some other field.

It is important to talk things through with your children well before the question of succession arises so that you know what they are thinking, and they know what your preferences are.

The most important things

The most important thing that must be protected during generational change is your relationship with your partner and your children. As important as money is, it will never give you the same level of joy and satisfaction as your family relationships. Preserve your personal health and your significant relationships before everything else.

But the next most important thing to protect is undoubtedly the business itself. This is, after all, the reason for the succession process. It is a key asset to preserve. Ensure that it gets your full attention during succession planning and the succession transition. Put systems in place to ensure that the changeover is seamless for your suppliers and customers. Let them know well in advance so that they expect the handover as a natural evolution of the business, and understand that they same business values will continue when you have moved on.

It is also wise to transition business management to a professional footing well before succession. Consider formalising job titles, formalising and documenting your business philosophy and business systems, and appointing an external advisory board or non-executive directors.

A succession plan

A succession plan should

- spell out how you, as the retiring owner, will be compensated financially for your many years of hard work in developing and operating the business
- nominate the next principal, and ensure that person gains control of the business in a fair and equitable way
- decide what happens with other share holdings—will other family members be allowed to retain shares and leave them, in turn, to their legatees, or will they be required to sell back to the principal at a fair price?
- spell out how the company and its shares will be valued
- document any agreed values or guidelines by which the business will be run

Getting assistance

Generational change is a difficult time, and to help you plan thoroughly, prepare well, and transition smoothly, you may like to get professional assistance. Lawyers and financial planners in particular have established models for succession planning, and can integrate this with retirement and estate planning. Accountants and business consultants can assist with financial planning, and an accountant or valuer might be helpful if a sale or transfer value needs to be placed on the business.

Books

Kosmas Smyrnios, *Family Business Succession Planning: A 10-Step Guide* (Centre for Professional Development, 2000)

Denis Tracey, *Family Business* (Information Australia, 2002)

Magazines

Generation

Websites

Family Business Association www.fambiz.com.au

'Seven steps to successful succession planning' www.boyd.com.au/newsletters/0412_SevenSteps.pdf

'Succession planning—the Achilles heel of mid-sized businesses' www.australianbusiness.com.au abl/bustips.nsf/all/7DCA34A66D2DF19E4A256FB0001C7914?OpenDocument