

## Plan for succession

**Fewer than 15% of family firms survive under family control after the third generation.**  
(Study by Harvard and Wharton Business Schools)

Succession planning is a complex and often emotionally fraught business. But the benefits include:

- survival and growth of the business
- retaining harmony within a family
- minimisation of tax obligations
- setting up for the retirement the owner envisaged.

Planning for the future of a family company is often more complicated than other companies which simply need to appoint a new CEO with the proper credentials. Therefore, extra care should be taken for the planning of succession, something which can sometimes take several years. Having an effective board in place will ensure the best succession path for the individual business and its owners is chosen, and a realistic timeframe established within which to make it happen.

### **Companies with boards are more credible to buyers**

Deciding to sell or transfer ownership of your business is not the same as actually doing it. Some of the tough elements involved are:

- owners often have an unrealistic value of their company
- a lot of company knowledge can live with the owner and it needs to be transferred successfully to a third party
- a board gives a company greater credibility with financial institutions and professional advisers
- independent directors' networks can help identify and connect with prospective buyers.

### **Taking the emotion out of the process**

The reality is that many small business owners simply shut up shop when they're ready to retire or sell. Of the above survey group, only 47% had any sort of exit plan and few of these were formal ones. Most owners said they didn't have a plan because:

- "it's too early to be thinking about it"
- "there's never enough time"
- "I don't know where to start".

Some of the reluctance to discuss or plan is psychological. It takes root in:

- having to leave a business that an owner is so connected to
- a fear of death
- envy of the younger generation
- worrying about losing your status
- in family owned businesses there might be more than one generation involved who all have different aspirations and expectations.

All these elements make it difficult to sit down and start building your own succession plan.

## **A board will help**

Establishing a board or including independent directors in your governance structure will bring much needed objectivity to the discussion and planning. A board will help you to:

- take the emotion out of the process
- ask and address the right questions
- involve the right people
- communicate effectively to those who will be affected
- be fair
- put a realistic value on the business
- commit adequate resources
- set an achievable time-frame for the plan
- have credibility with buyers and other key stakeholders
- make the vision a reality.