

Ensuring the survival of a business from one generation to the next

You have worked extremely hard to build a successful family business. Sleepless nights over business loans, management issues, staff problems, business goals and strategy, marketing plans – and the current economic environment - these are just a few of the endless list of things that you have navigated to create a business which sustains you and your family, now and hopefully into the future.

The reality is problems with succession are the greatest threat to the survival of any family business. However in today's busy world it takes illness, accidents, death, marriage, or divorce to occur before a business owner tackles the pressing issue of succession.

The cyclical nature of business, competition, labour laws, cost of production, the exchange rate, changing technology – none of these compare to the threat of failing to plan for the transfer of a business's ownership and leadership to the next generation.

Succession brings with it a range of unique challenges and the next generation brings with it new dynamics - a careful business succession plan for ownership, leadership, and management will address these and many other issues.

According to Andrew Ratcliffe, a director of Private Client Holdings, families must embrace succession planning as an integral and important part of the ongoing health of their business. "Effective succession planning is not about simply choosing the next family member to take over the reins and showing them how it is done, but rather it involves balancing competing interests and pressures that are part and parcel of a family business and ensuring this is carried out successfully over the long-term."

"During the process of succession planning, conflicts between involved parties need to be forced out into the open where they are dealt with. These often revolve around the goals that people have for the business and how these goals relate to personal hopes and interests - the reasons are often more emotional than practical. They are, however, just as real."

“Ensuring the effective transfer of wealth from one generation to the next is one of the important roles of a multi-Family Office. Succession planning along with estate planning, trust administration and the preservation of wealth are just part of this activity.”

Some advice for successful succession planning

Ratcliffe offers some advice for families wanting to put an effective succession plan in place:

- Work with an experienced third party. Like a multi-Family Office who understands your, and your families, wealth in its entirety; the investment management requirements, technical and administrative service requirements as well as the family governance dynamics.

A multi-Family Office basically provides the support of a highly qualified, multi-disciplinary team of advisers, who will look at the big picture and devise a holistic strategy for managing a family's wealth and ideally improving a family's overall financial welfare. Such an expert can also highlight the major issues of succession planning for a family owned business.

- Put together a written set of “**guiding principles**” which clearly define the respective obligations for all members of the family involved in the business – whether they take an active role in the business or remain passive.
- Write up a **Values Charter** which defines how the family business will be run and lays out the compensation and rewards for family members and non-family managers who are responsible for the growth of the business.

“Compensation plans should distinguish between passive and active stakeholders, family and external board members, outside managers and non-family stakeholders. The compensation plan should also specify details such as bonus systems, stock options, shares, straight salaries etc.”

- Finally, designate a third party as a **process arbitrator** to help in the case of unresolved disagreements. A family protocol or business constitution should be regarded as a living document that should regularly be revised.

“There should be a clear set of rules on how to purchase the interests of family members who wish to cash out their stake,” says Ratcliffe. “There should also be guidelines established for the potential sale of the business as well as for its diversification.”

According to Ratcliffe, after the larger goals and visions for the family business have been set, the major issues that a family must ultimately resolve include concerns such as legal structures, ownership arrangements, estate planning, inheritance tax, management succession and compensation.

“If you start the succession planning process early and integrate the process into a normal, ongoing part of your business, you will considerably improve your chances for achieving a successful generational transition.”

For more information see www.privateclient.co.za contact Private Client Holdings on (021) 671 1220

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