Family Succession Planning

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While succession is challenging for all businesses, it often becomes even more complicated when family relationships must also be considered. This overlap between business and family creates many obstacles to the management, growth and sustainability of these companies. Blurred boundaries between ownership and management often lead to conflicts and jeopardize the companies' future.

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While adopting sound governance practices can provide a valuable framework for family firms to address issues of sustainability and professionalism, they're usually not compulsory, as they are for large companies listed on the stock market. Family SMEs therefore rarely adopt corporate governance codes and principles, and even if they do, family emotions can influence strategic decision making, and especially succession.

Rome wasn't built in a day: the succession process

Succession is a lengthy process that shouldn't be left to chance. Family businesses need to regard succession as an extended process of at least three years, with the roles and responsibilities of the predecessor and successor varying before, during and after the succession.

Before the succession takes place, the predecessor must mentor their chosen successor, closely nurturing their knowledge about all aspects of the business. During the succession process, the predecessor should begin to delegate increasing levels of responsibility, particularly decision-making power, to their successor. Finally, the predecessor will retire, leaving the business completely in the hands of the successor.

Reluctance to let go is one of the most significant factors in the failure of succession in family businesses. Leaders are often unwilling to plan for succession due to an emotional attachment to the business, fear of retirement, loss of status, lack of power or even a lack of diversions outside work. This attachment to the business leads many family business leaders to maintain a leadership (or "consultant") position, even after retirement. While their experience can be invaluable, this continued presence can be perceived as a lack of trust in their successor, adversely affecting the decision-making process and confidence of employees and leading to frustration from the successor, as they live in the old leader's shadow.

The willingness of a successor to take over is also crucially important in family business succession. Studies show the established leadership of family firms perceive commitment to the business as the most desired attribute in their future successor, ranking even higher than their competencies.

The generation gap and personality differences are the most common reasons for disagreements between the current leader and their chosen successor. To avoid this, family businesses must adopt a culture of trust and mutual respect, supported by open communication. This will allow for an effective transfer of knowledge and social capital and ensure the continuation of the business.

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Nepotism and sibling rivalry are common in failed succession plans, underlining the importance of a shared vision among family members, helping to keep the family united once the established leader steps down. Avoiding conflict between family members requires clear distribution of shares, roles and authorities, as well as the decision to base compensation on experience and competency. Emphasizing family values, loyalty and traditions can also play an important role in achieving a harmonious atmosphere and shared vision in family firms, all of which supports a smooth succession.

Handing over a business to the next generation is a real challenge to family businesses. However, it can be achieved by families working on their internal relationships to foster trust, open communication and mutual understanding between family members. At the end, having strong, solid family ties can help facilitate a smooth intergenerational transfer of wealth and reduce conflicts within families.

Turning the business over to next of kin

Handing down a family business is a dream of many entrepreneurs who want to see the business they started thrive in the hands of the next generation. But statistics show that succession can be riddled with challenges.

Wendy Sage-Hayward, a senior consultant at the Vancouver-based Family Business Consulting Group, says although many families may want to pass down their business, the succession process is often not thought through carefully enough to make the succession successful. Here are some handy guidelines to increase your chances of success:

Avoid holding the reins too tightly.

Founders have a tendency to hang on to control, not allowing their kids to have enough say or enough investment in the business. "The entrepreneur typically does have a fairly strong control-oriented personality," says Sage-Hayward. Entrepreneurial characteristics tend to be very independent, autocratic and particular. It can be difficult for entrepreneurs to let go of those tendencies, but Sage-Hayward says that's exactly what needs to happen in order to have a successful succession.

Eliminate entitlement.

Just because your last name is "Jones" doesn't mean you should automatically get a seat at the Jones Company's boardroom table, says Sage-Hayward. She recommends entrepreneurs set expectations around how kids will get to participate in the family business. Often, kids will be encouraged to go outside the company for work experience and education so they can bring those experiences back into the family business.

Build the skill sets of the next generation.

One of the biggest mistakes Sage-Hayward says she's seen in family businesses is that the founders have been so busy working in and building the business that they haven't spent the time to work on building the skill set or engagement of the successive generation. "Working on the business means you're developing the next generation, engaging them, helping them get the kind of skills and capabilities that they need to take it over," says Sage-Hayward. Building stewardship in family members means holding regular family meetings to involve other family members in the key conversations so they understand the ins and outs of the business and are prepared to take it over when the time comes.

Consider whether the next generation wants to be part of the business.

Sometimes founders have a dream that their children will take over the family business, but the children simply aren't interested. Sage-Hayward says this often happens when the founder shuts out the family from the day-to-day interactions of the business or is so busy building the business and not spending time with their families that the kids begin to resent the business and want nothing to do with it when they get older. Involving kids in the business at an early age in a positive way is the best way to ensure they'll be enticed to join the business later on. "Succession planning starts from a very early age," says Sage-Hayward, "building work ethic, building the understanding of the business and building the mindset."

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Be prepared to let go.

Ruling from the grave is one of the worst mistakes entrepreneurs can make when handing a business down to the next generation. Trying to set up structures that will control what the next generation can do rather than allowing them to run the company will only cause leadership ambiguity and create a stressful work environment for those family members who are left to run the company. Founders should be emotionally and mentally prepared to walk away from the business completely when the time comes around.