WHY PLANNING FOR SUCCESSION IS PLANNING FOR SUCCESS

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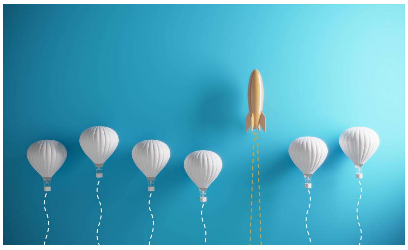
There is careful planning involved at every stage of the business life-cycle, such as launching new product lines, entering new markets and moving into adjacent industries. An owner-managed business would be adept at managing such transitions, and the rigorous planning that precedes them.

Why is it then, that a different logic should apply when faced with the question of planning for succession to the family business?

By that, I do not mean the realisation that because the business lies at the heart of the family's wealth and thus the next generation regard it as their inheritance—irrespective of whether they intend to remain actively involved as managers/employees or only passively concerned as shareholders—it needs to be succession planned for as an asset. I am more puzzled at the lack of discussion and planning around the issue of leadership succession in the context of family businesses.



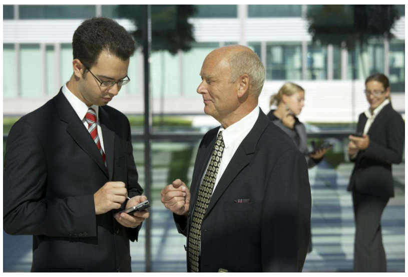
As someone who works with business families regularly, I am yet to come across one which does not consider leadership succession planning important. However, there seems to be a fundamental mismatch between the intention to plan and acting upon it. Why is that? And why is it so important to have a succession plan that encompasses both aspects?

About half, at 52%, of European family office respondents to the Campden Wealth *Global Family Office Report 2021* said they had a succession plan in place, below the global average of 55%.

The explanation may lie, partly, in the fact that founders tend to be talented and very individualistic entrepreneurs, who thrive on there being few formal constraints and identify themselves absolutely with their businesses. So imagining that the business can thrive without them is not something they can do easily. However, unless they do, this risks becoming a self-fulfilling prophecy. According to succession planning consultancy EDSI Solutions, "Second-generation leaders of family-owned businesses have a 60% failure rate, and the succession from second-to-third generation has a 90% failure rate".

"Founders often cite concerns over the next generation not being ready"

This is not merely the result of current leaders failing to name a successor and families having to identify one at the point of immediate succession. It is often the (unrealistic) expectation that family members will simply be ready to take on the reins upon a transition. In failing to address planning for an impending leadership succession, founders often cite concerns over the next generation not being ready. European family principals in *The Global Family Office Report 2021* admitted only 12% of their next generation cohort were "very prepared" for succession, the same as the global average, but most were "somewhat prepared" at 47%, above the global average of 39%. The question they ought to be asking is how to get next generations ready.



Grooming future leaders through formal and on-the-job training, developing them through stretch assignments and benchmarking them against external candidates is how families that successfully manage the leadership transition approach the challenge. They appreciate that developing potential successors takes time—years, rather than months.

And this is assuming that a successor from within the family does ultimately emerge—one who is qualified for the task, interested in leading the family business and committed to preserving its culture and alignment with the family's core values.

But not all families have this luxury. With next generations being free to pursue their own professional happiness, their personal priorities may not lead them to a career in the family business, either immediately or at all. If this is the predicament which the family business is likely to face, should current leaders not be keen to know soonest? By not having transparent conversations with the next generation or developing a process for preparing leaders, business families are failing to plan for one of the biggest challenges their business is likely to face. This could mean that adopting the professional management alternative becomes unavoidable.

And indeed, as the business grows, the family may not be able to develop enough internal talent. There is greater complexity, which family members may not have the managerial capability or inclination to handle.

Identifying likely skills gaps or internal talent shortages early on should be a priority for current leaders, as part of future-proofing the business and to allow time to recruit a professional manager who is culturally aligned with the family and embodies an owner perspective. Ideally, this would be an "outside-inside" manager who develops within the business (and this too takes time), before being promoted to a managerial role.

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So in considering what may be the optimal time to start planning for a leadership succession, this is measured in years; certainly where the preference is that a business leader from within the family is elicited. But the choice is rarely binary. There is also a temporal element, with family members' perspectives evolving over time. This means that business families should be seeking to develop a pipeline of talent and processes for getting them leadership-ready, and this is an ongoing task.

Returning to the point about business interests being an asset, sometimes the most valuable asset that the family has, and the need to protect it for the benefit of future generations, there are various mechanisms that can be deployed to accomplish this.

One way would be through the alignment of management and ownership interests. However, this would not always be possible in families, especially as they become more numerous and business interests more fragmented. This is why there needs to be robust corporate governance in place that ensures the protection of minority interests, transparent sharing of information and processes for board refreshment.

Another way would be through structuring. This could involve the separation of economic from voting interests, and the contribution of one or both into family trusts designed to endure as dynastic structures. This could help manage some of the inter-personal family dynamics which can lead to conflict within the family, and which is then played out in the boardroom.

Ultimately, no two families are the same, and no two businesses are the same. Each family needs to be very clear about what its vision is for the business and the family as a whole. Only then can they develop effective strategies for protecting business interests and ensuring that the business continues to flourish for the benefit of future generations, whether under family or professional management.

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Antoaneta Proctor

Partner, Private Client

Antoaneta advises on international tax and evaluation of tax risk, cross-border succession, structuring for wealth preservation and family governance at Wedlake Bell. She acts for (ultra) high-net worth individuals and their families (both UK and non-UK domiciled), entrepreneurs, family offices and trustees, typically with complex and multi-jurisdictional legal needs. Her clients come from backgrounds as diverse as Russia, Israel, Switzerland, South Africa and the Middle East.

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