

**PKF**

Funds and Family Office

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# Succession

for your family enterprise

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A young woman with dark hair, wearing a white long-sleeved shirt, is pointing at a bar chart on a computer monitor. An older woman with blonde hair, wearing a light blue blazer, is sitting at the desk and looking at the monitor. The monitor displays a bar chart with a y-axis ranging from 0 to 35. The chart has five bars of increasing height. The office environment is visible in the background, with other people and desks.

“Someone’s sitting in the shade today because someone planted a tree a long time ago.”

**Warren Buffett**



**There are a million definitions for succession and it is often assumed that succession only focuses on continuing a business. I disagree.**

Succession involves the founder and their family, the enterprise and its executives, employees and end users – anyone who is a stakeholder in the business. It's an important subject now, as we face the largest transition of wealth and ownership ever seen as baby boomers look to transfer their ownership whilst maintaining their legacies.

In the context of a family enterprise, succession can be incredibly complex, and more so the further down the generations you go.

Statistically, families struggle to maintain a successful enterprise after the third generation as fewer than one in 10 family businesses stay together beyond the third generation<sup>1</sup>. This trend exists in all cultures, with equivalent sayings across the world - 'shirt sleeves to shirt sleeves', 'rice paddy to rice paddy' and 'clogs to clogs'.

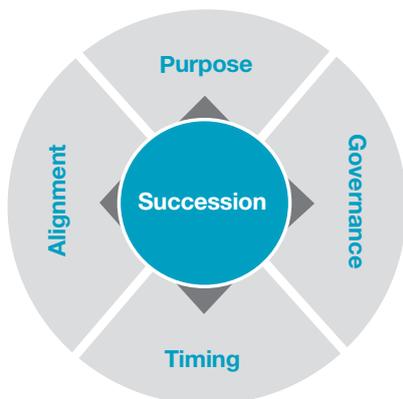
It's worrying to think that the wealth your family has gained in one generation may be lost by the third.

**The 'hundred year life'**

We are all living longer. What was once considered retirement age might now be referred to as the start of a 'fourth life stage' where you continue working. This can bring its own challenges. The younger generations might not be getting the opportunities they feel they deserve and the older generations may work for longer as they want to maintain control in their later years.

# Factors affecting succession

Succession is influenced by four areas. Thinking about these now will help you on your path to a smoother transition and a robust succession plan.



## Purpose

Why do you want to do this, what is the purpose? Think about what you want your legacy to be and the values that you, your family and your business adhere to. The internal compass which has shaped what you do will also set the direction for the future.

## Governance

How will you manage succession? What is the process? Who is involved, what will happen and when? It's important you create the correct governance structure to manage this process and have a clear governance model that enables you to maintain your family's hand on the direction of the family enterprise.

Your governance model will be designed to fit your chosen succession plan. For example, if you have opted for an ownership model with no family members working in the business, you will

need to create a shareholder council with representation on the board to be the voice of the family in the business.

## Timing

You'll find plenty of reasons to delay this process. You don't want to think about leaving yet. You don't have time. It's too complex. You can't find adequate advice or the tools to get going. Or you might be fearful of conflict with family or employees. But the earlier you start, the more your family enterprise will benefit.

It's never too late to begin planning and executing succession.

Here are a few reasons to start now:

- To ensure your legacy is continued
- To secure the success of your family enterprise and enhance your position in the market
- To look after your and your family's wellbeing and future.

Don't let the requirements of the immediate prevent you from planning for succession.

## Alignment

Ensure you have a process in place for understanding how all stakeholders feel and that you give them the chance to feed into the succession plan. Think about how you as a family enterprise align yourselves around your purpose and values. This is critical. If properly aligned, the purpose and values will continue to drive and direct your family enterprise for generations to come.





## How to succeed in succession

### 1. Understand what you are transitioning

Are you transitioning the ownership of the business, the operations or both?

### 2. Communicate your intentions

Make sure you share your thoughts about the future – don't assume everyone knows what you're planning. Start this early and get everyone's viewpoints as all stakeholders need to be involved to some degree. The more consensus you get now, the better your chances of creating a successful family enterprise over multiple generations.

### 3. Accept conflicts and disagreements will happen

Succession planning is a process of listening, sharing, learning, understanding, redefining and revisiting any conflicts or disagreements to obtain a resolution. It's natural to disagree, but it's not OK to let the disagreement go unchecked. Ensure you have a regular channel of communication to voice concerns.

### 4. External facilitation

Consider involving an external facilitator, as family members will act differently when an impartial person takes the lead. A facilitator should be independent, neutral and should ideally be someone that the whole family has agreed to work with. They should understand your family and your family dynamics.

### 5. Fairness, equitable splits of assets and control

Naturally, parents will want to treat their children fairly. In family enterprises, there will be offspring working in the business, those who aren't, and those who behave in a way that you don't approve of. This can sometimes be a point of contention and one that is challenging. It's worth thinking about the opportunities each family member receives from the family enterprise against what they put in, and how this relates to the equitable split of assets and control they receive.

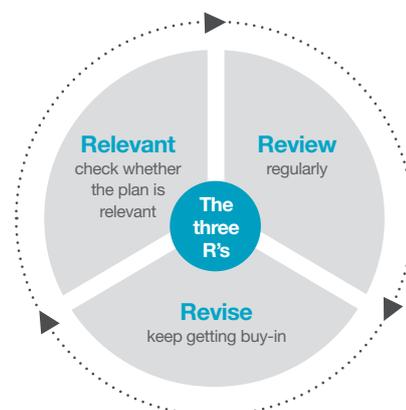
Think about what your family enterprise offers all stakeholders. Create a framework which enables them to achieve their own goals and define their own purpose, whilst still being aligned with the wider aims of your family enterprise.

### 6. The future

A successful transition will have different outcomes depending on your goals. Success comes in many guises. You can succeed as owners not operators, as owner/operators, you may not have a family enterprise or your success will be defined by other activities you choose to do together as a family enterprise. You might even decide success means you don't stay together at all.

Succession can only be successful if you:

- Start **early**
- Get **alignment**
- Create a **realistic plan** with **effective governance**
- Use our **three Rs** model:
  - **Review** the plan regularly
  - **Revise** the plan when needed and keep getting buy-in
  - Check whether the plan is **relevant**.



**For more information about how we can help your family enterprise, office or business plan for succession, please get in touch.**

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## References

<sup>1</sup> Surviving beyond a third generation, Institutional Knowledge at Singapore Management University.  
Can be accessed via: [this link](#)

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