

## How to hand over a family business

### **Kieran McCarthy, a legal expert in this area, gives his five tips to help you manage the difficult task of succession in a family business.**

The issue of succession is a heavy one for a family business. Time and again, business owners have tried and failed to avoid the classic mistakes. There are the companies that fail to plan at all, and which are plunged into chaos when the moment for the inevitable succession arrives. There are the cases where the next generation isn't ready to take the reins and the business suffers as a consequence. Often the wrong successor is chosen by default – it falls to a son or daughter to take over, where a talented outsider would have done a better job.

Succession is by its nature a time of transition and there is a burden of communication that is often overlooked and as a result employees, customers or other stakeholders miss key messages. There are also the cases where succession is forever forestalled by the former leader who can't let go and continues to look over the shoulder of the new management.

To avoid all these errors and more, I suggest the following:

#### **1: Plan**

It's surprising just how many family businesses haven't put time into planning for succession. It's something business owners frequently put on the long finger, not realising that a formal succession plan or exit strategy should be put in place long before it is needed.

It is best to seek professional advice to help draft this plan, not least to receive the benefit of an independent opinion.

*The following are key things to consider:*

- To ensure that succession planning is efficient, transparent and fair, the process should include as much dialogue as possible between family members. The next generation must be involved in the process.
- Make sure the people taking over the business are clear about how the business will grow. Also, be clear about who the people responsible for growth are.
- Make a diagram that gives the names and job titles of all the staff in an organisation, showing how they are connected to each other and then look at how this will shift after the owner has stepped back from the business.

#### **2: Empower the next generation**

Give the next generation the opportunity to be involved in the decision-making process long before they take control. Step back from the business in stages. Start to give them responsibility for making important decisions so they will learn how to weigh up pros and cons and reach the right decision for the company.

Help the next generation get a sense of their strengths and weaknesses and work with them to plug any gaps in their expertise through mentorship and education, or indeed through encouraging them to work outside the family business for a time before joining the family business. The more experience and diverse perspectives they can bring to the company, the better.

### **3: Choose your successor carefully**

Family pride dictates that business owners often default to assuming that their children are the most natural candidates to take over - however, it may be that the best person for the job is a non-family member. Sometimes it is preferable for all involved when the business appoints a non-family CEO to succeed an owner-manager. It can help avoid the situation where a business leader feels they have to choose between their children (none of whom may be the right fit for the job), and also opens up the business to outside expertise. That could be crucial to ensuring the financial future of the enterprise.

If you are unsure whether a daughter or son is a fit for the role, enable them to work closely with you for a period, shadowing you and honing critical skills before you make a decision. Forming a steering committee of senior management to choose the best candidate for the job will help ensure a fair process.

### **4: Communicate**

Describe the proposed changes and a new vision in good time. Staff, customers and suppliers

should all be kept informed of the current owner's plans to reduce involvement and who is taking over the reins. Explain why he or she is the perfect candidate for the job.

This is all about maintaining relationships and credibility and preventing key stakeholders from losing faith in the business, as a result of the transition to a new owner. Of equal importance are the communication to the unsuccessful candidate and their role in the organisation in the future.

## 5: Step back

Once you have made the final leap and replaced yourself as the head of the business, it is vital to keep a low profile and not become a second MD. That temptation will be there if you stay on as Chairman for a period.

If you are an owner struggling to let go, there are measures you can take to step back from the business.

Owners often fear that they will have nothing to do. Therefore, it is important to develop an identity outside of the company. Joining other boards and getting involved in charity work are recommended steps in this process. You could also consider joining a business mentoring programme and putting your expertise to work for the next generation.

Some people find it easier to retire to something rather than from something. If there is another business venture or education project you are interested in, then put your efforts entirely into that. If you've planned properly for succession, watching from the sidelines should be an enjoyable experience.

*This article is by Kieran McCarthy, a lawyer who has extensive experience advising owner managed and family owned businesses. McCarthy wrote and published the book [Family Business: A Survival Guide](#), which prepares those who own a family business – or one day wish to do so – to meet the challenges that arise when family members work together.*

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