

Succession Reset

Family Business Succession in the 21st Century

Success Strategies, Barriers and Dynamics

USA Region





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Effective Succession

Succession in family business has been redefined in the 21st century. The practice of what a 'family in business' looks like and how it works has changed dramatically through such factors as globalisation, the internet and digitalisation.

Family businesses now comprise not just family members but may consist of two or more families in partnership, multiple partners (some related and some not) and many other variations which is opening up the traditional definition of family business. Certainly not all family members participate in a business in a hierarchical or equal way. As businesses grow, the family interest may even be represented by a controlling interest in a publicly listed company rather than actively managing the day-to-day operations.

There is certainly no expectation or certainty that a business will pass along family lines and selling the family business is considered a sensible and viable option. Many of what were considered 'the norms' for family business succession no longer prevail and new models are being created to carry forward a new generation of families in business. The traditional definition of family business and succession are no longer relevant in the current environment.

In considering this reset of family business succession several key points must be highlighted:

- Families that are in business are big business. Many may be small but as a sector they are bigger and more important than big business
- This sector is experiencing a generational shift that we have not experienced before in our economies as the Baby Boomers generation exit from management and control. If this transition is not managed well, the impact on our economies will be significant
- This generational shift is occurring now, it's building momentum and will most likely be completed in the early 2020s. In this shift lies significant opportunity and significant risk.

In this new era of succession there is significantly more uncertainty and complexity. The skills required of the incumbent generation to transition their business effectively are far greater than ever before. They must be able to make their businesses 'succession-ready' being both ready for transition or market sale, as a whole or in easily flexible parts. The need to understand, and to be able to impact,

Family business – many combinations including:

Friends
Siblings
Husbands/wives
Founders
Cousins
Nieces/nephews
Step-families
Adopted families
In-laws
Partners

67% of businesses worldwide and 70-90% of annual global GDP¹

Succession ready = ready for transition or sale

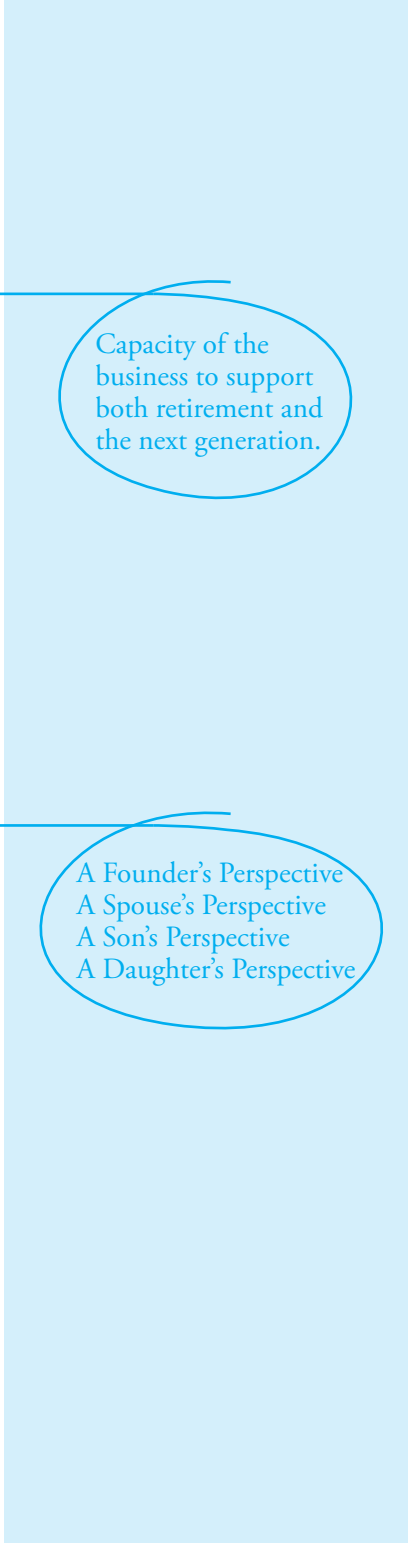
1. Family Firm Institute Inc., www.ffi.org/?page=globaldatapoints

the drivers of capital value and competitiveness in a business are critical in this succession process. The goal of simply passing over the existing business to the next generation when the incumbent is ready to retire is no longer workable or viable. 'Succession' really does commence the day you start your business.

Continuity of the business, achieving family harmony and sustaining ongoing jobs for employees are key outcomes sought from the succession process. Building the financial capacity of the business to sustain a growing family and being able to deal with the complexities of today's business environment are key challenges. The role and importance of spouses in achieving these outcomes is now evident but not recognised by many.

Succession in this new era is not focused on just a realisation of wealth or transfer of a business. Succession is about the generational transfer of the skills that create wealth and a passion for businesses. Succession is a process of enabling the compounding of wealth from generation to generation whilst ensuring individual growth, a sense of contribution and family unity.

This report considers the findings of the research undertaken into the success strategies, dynamics and barriers of succession in families in business. To capture the richness of thoughts and experiences, included are profile pages with quotes from research participants. It is a report for the business person to guide them in their own succession process.



Capacity of the business to support both retirement and the next generation.

A Founder's Perspective
A Spouse's Perspective
A Son's Perspective
A Daughter's Perspective

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Succession in the 21st Century

Family business succession is certainly not new but it is receiving a lot more attention by academia, professional advisors and the media. This 'popularity' is being driven by the activity of the Baby Boomers generation as they face the inevitable challenge of transitioning their businesses to new managers and owners. This transition is not a question of if, it's only a question of when and the when is fast closing.

This challenge is not going well with only 15% of Baby Boomer business owners globally having completed their succession plans. By 2020, this generation will be aged between 56 and 74 years of age with the weighting heavily toward the older age. This generation represent between 15% and 30% of the population in countries across the globe and they presently control much of the privately owned business around the world. Many of these businesses may be small but as a group they are a global powerhouse all living the same transition. In five plus years, trillions of dollars worth of businesses globally will have shifted into the hands of new managers and owners.

If this transition is not handled well it may impact the prosperity of the many economies in which these businesses operate. A failing in effective transition could see decades of business experience being lost and the competitiveness of businesses being weakened.

In this transition also lies great personal (family) risk and opportunity. Risk for those who do not act ahead of the curve and are left behind trying to realise the capital value of their businesses and/or attract talented management to lead these businesses. Maybe even more significant is the great opportunity that exists for those that do move early. This opportunity is to execute succession plans ahead of the curve, and for the new generation of owners and managers, the opportunity to acquire a suite of businesses from the exiting generation and seize dominant positions in their markets of choice.

The key to exploiting this risk and opportunity lies in understanding how succession in families and businesses has been reset and redefined.

Succession has been slow to emerge in our markets but its presence is now clearly evident, it carries with it risk but it may also deliver great rewards. It should not be ignored.

16.3% of total population

Argentina	17%
Australia	25%
Brazil	18%
Chile	20%
China	24%
France	24%
Germany	28%
Hong Kong	31%
India	16%
Indonesia	17%
Mexico	15%
Panama	17%
Peru	16%
Singapore	25%
USA	25%
United Kingdom	23%

Succession Reset

Family business succession has changed in the 21st century. This change might be best expressed by simply saying, passing is the era of the ‘family business’ where the business was transitioned from generation to generation. The family business was the asset (the entitlement) that was passed through generations, it was a given.

Emerging more prominently is the era of ‘families that are in business’. In this era the family unit is more open and dispersed, and rather than handing over a business, what is passed on is the skills and the desire to be in business. The aim of succession becomes one of instilling business competencies and experience in those family members who may be interested, and building relationships across the family so as to allow the family to continue to compound its wealth across many generations.

Era past

In the past, succession was often seen, in one sense, as being very informal with no real planning required. Succession of the family business was something that was just expected to occur. Children grew up knowing about and being involved in the business, and understanding that their parents expected they would take over the business at sometime in the future. Children were naturally trusted, they worked in the business as part of their responsibility in the family unit and the business, being the source of income and wealth, would flow through to them. It was a mutual understanding and commitment.

The question of children choosing other paths outside the business as careers was not actively promoted and the levels of education and opportunity for travel were far more limited. If the family business had provided well for the family, why would it not also provide a living for the next generation? It was a simple path for parents and children.

Of course it was an era in which, most often, the man was the provider of income and their spouse was more concerned with the welfare of the family. Typically the sons inherited the family business and the daughters would be expected to marry into other families. Sons would share equally in the family business and sometimes, but not always, the daughters may receive a share of other assets from the parents’ estate.

This was an era in which family obligation and duty came first, roles were clearly defined and known, and traditional entitlements to wealth were clear. Individual freedoms and choice took second

“The development of potential successors who, although new, are evolving every day.” – Brazil, 65

“Smooth transition of power, financial independence for myself and my wife, confidence in children to successfully carry on management of the business.”
– Canada, 52

“The son in law inherited the business as I did not have a son or grandson.”
– Korea, 84

place and the standing assumption was that the business would remain in family hands from generation to generation. It was in many ways a simpler time for family business succession but not necessarily one that supported the generational building of wealth.

New era

Today the circumstances and expectations are quite different and this has created an uncertainty that is challenging many families in business. For families that choose to be in business these challenges are amplified by the complexity of business today with globalisation, the internet and digitalisation, and the changing landscape of consumer preferences, requiring many to adapt their businesses and business models to remain competitive.

It appears that there is no compelling rationale for continuing the existing business along family lines and most believe that selling the business is always an option.

There is, however, a language of ‘stewardship’, ‘custodianship’ and ‘legacy’ applied in business succession as planning and process is brought into play, often by family business consultants, to underpin generational transfer of the business.

Children are encouraged to follow their own dreams without any overt pressure to join the family business. In many instances the family discussion can be around questions such as, ‘Is this really the right business for the children to be in and do we want this life for them?’ At the same time, the sense that children must be qualified for any position they may occupy in the business is strongly held.

Age and gender bias are still evident but much weaker than they have historically been and almost without exception there is an understanding that daughters are potential successors in the business. Many businesses reported as having at least one daughter in their senior executive ranks.

The perceived family harmony around succession that existed in the past can no longer be assumed. Instead family harmony must be negotiated without any guarantee of the business remaining in the family. Individual freedoms and choice outweigh any sense that succession is a family obligation carried by the children.

In many instances, this era of freedom and individual determination has created an environment of uncertainty where the current family business owners do not know whether their children may have an interest in the business and if not today, then maybe sometime in the future.

73.6% agree

“Do not send to the fourth generation companies that do not interest them, and to ensure the survival of businesses.”
– Luxembourg, 56

69.2% agree

73.5% agree

In the 21st century, there is a far greater open-ended and negotiable conception of how families may go about their business. However, many family businesses do still expect their business will be retained in the family at the conclusion of their succession process.

Rewards

So, in an era of freedom, choice and individualisation, what is the advantage, if any, in pursuing business succession along family lines?

Allow me to share a business strategist's view:

The answer lies in the innate competitive advantages that family businesses can possess and the benefits that may be achieved in the compounding of wealth across generations. Family businesses are businesses generally seeded by one to two individuals (sometimes just friends and not family) and grown through commitment, endless work and a passion to be successful. Every great business started as a family business, until it was surrendered by the family into the listed company domain.

Successful family businesses are built upon values that underpin the business' success. If the family is able to develop effective succession practices they will be able to develop trans-generational entrepreneurship, thereby compounding the family enterprise and wealth across generations. It may not be the same business, but the values that made it successful will be transferred into new business opportunities and the wealth of the family will continue to be built. Their growth comes through multiplication not division, they continue to grow and compound and not divide and separate.

Successful succession planning in the 21st century is focused on continuity of family enterprises across generations. This strategy represents a more fluid understanding of family business, both in terms of businesses (relevant profitable businesses for the time) and families (the right people in the right positions).

Families in business should develop proactive strategies designed to orienteer the uncertainties that exist for the business and the family as they recognise the substantial costs in not being proactive. These costs include loss of business competitiveness, family conflict, loss of wealth and decisional paralysis.

These families recognise that character, personal qualities and relationships of the incumbent family members and the successors matter more than ever as they seek to nurture and mature the right traits across family members.

60% agree

“To teach my children to step up to the challenge of dedication to a family business that requires more than a basic job of a 38 hour week. To meet the demands of dealing with difficult staff that test you to the limit.”
– Australia, 57

“Right people for the right job. Hold dearly to the family values.”
– Singapore, 58

“100 years of successful transition as 16 family members have left the business and 3 non-family members.” – USA, 59

A Founder's Perspective

Outcomes sought

“Family harmony and economic security for the next generation.”
– Panama, 64

“Exit from the operating business, converting into liquid assets and real estate.” – India, 60

“Child takes over from parent at an affordable price for the child, but at an amount which provides for parent's financial security.”
– Australia, 55

“Sale of the business or CEO appointment. Passing a business onto children can be a very unfair act as it is difficult to follow in parents' footsteps and [they] can feel inadequate in many circumstances.” – Ireland, 60

“Desire to keep the business strong and growing.” – Canada, 72

“Continuity of income during retirement.” – Mauritius, 56

“Doing what is best for the company, and then family.”
– USA, 61

“That the successor has the necessary skills to keep the business operational and viable.” – Ghana, 56

“Continuity of the business. I have three daughters who don't study construction. I don't know who will be a successor.”
– Slovak Republic, 52

Toughest decisions

“Choosing the right successor of the same mindset” – Belgium, 56

“Who has the majority shareholding”
– United Kingdom, 51

“Deciding that effective succession required significant growth.”
– Canada, 55

“Ensuring fair division of assets amongst heirs.” – Hong Kong, 60

“The exact distribution of family property.” – Korea, 70

“Determining the next CEO successor and pulling out from all operations within the business.”
– Jordan, 51

“Fire [the] family whom I love but [are] incapable.” – Singapore, 49

“How to structure to give my children some economic benefit, but not so much that they lack incentive to develop their own life goals.” – Australia, 62

“The decision to sell.” – Ireland, 75

The legacy

“I currently plan to sell and donate to charity. [The legacy is] using the business for research, development and education. The business is complex and [is] better sold and the money used for charity and to fund a wealth replacement life insurance fund for family members to start their own businesses.”
– USA, 52

“Legacy of family foundation and a company that provides security for the third generation. Have already put fundamentals in place, not ready to turn everything over to trustee. [I will] wait until I am older or have health problems.”
– USA, 77

“Sustainability of the business.”
– Korea, 67

“Harmonization to next generation.” – Thailand, 67

“The legacy flows through the family ownership, a willingness to move with the times, adding security and value to family and employees.”
– United Kingdom, 64

Greatest achievements

“Family agreements.” – Panama, 61

“Protecting the employees’ jobs.”
– USA, 68

“Giving the next generation a real
sense of direction.” – Australia, 52

“Securing top management
commitment.” – USA, 62

“Family charter.” – Belgium, 52

“Making me put things down on
paper. It must be discussed and
wishes put to paper and thought
through.” – South Africa, 51

“Inspiring the pride of the
successor.” – Korea, 70

“Identification of the best person to
head the flagship of the company.”
– India, 54

“The business over the last
decade has seen dramatic growth
& improved profitability since the
succession process was introduced.”
– Australia, 65

Lessons learnt

“It is never too early to begin
the process.” – France, 58

“More external expertise.”
– Belgium, 56

“Start as early as possible, involve all
related persons and be transparent.”
– Singapore, 53

“Start planning earlier.” – Ireland, 75

“Start the succession process earlier.”
– United Kingdom, 58

“Do not prejudge.” – Australia, 65

“Good communication is essential if
a positive outcome is to be gained.
It is much more difficult than I ever
imagined but good communication
has made the process easier.”
– Canada, 63

“Start early.” – USA, 54

“Create an advisory board earlier.”
– Canada, 55

“If there is unanimity in family
thought process, the succession
planning is easily achieved.”
– India, 60

“There was no plan at the outset. I was trapped in a unique business. It would be difficult to sell because of the expertise required. An appropriate sale price would be difficult to achieve. My personnel that had made me the money that I enjoy deserve to be looked after. My son expressed interest in starting at the bottom when he returned from overseas. VERY important that he could walk out at any time. There was no obligation to stay. I’ve seen 2 friends ruin their relationship with their sons because the sons could not perform as well as they could.” – Australia, 55

Founders are clearly dealing with a range of conflicting motives, desires and considerations during succession. These include providing for their own financial needs versus the needs of future generations, transfer of ownership as distinct from management and control,

and balancing family issues whilst growing the business and ensuring its continuity.

There are consistently strong, global messages from the important lessons Founders have learned through undertaking succession – start the

process early and communicate with those involved. By being proactive, Founders have an opportunity to make collective decisions that benefit both the family and business, whether the business is ultimately retained or sold.

Challenges

There are many challenges that must be addressed in achieving a successful succession outcome. Often families today struggle with succession as they are not able to cope with the uncertainties in the family and the business. They sit and wait for something to happen, hoping for the best. For the Baby Boomers generation this is a high risk approach as time is against them.

Succession requires action today no matter how far away you believe your transition may be. Identifying the triggers, focusing on the outcomes sought and overcoming the barriers to effective succession will be your key challenges.

Triggers

The first challenge is to commence the process. Identifying and activating the trigger that works for you is the first critical step. The most common triggers that initiated a succession process are:

1. Professional advice recommending that the succession process commence
2. The current incumbent generation being ready to transition
3. The incoming generation being interested in and ready to step up to the roles of managing the business.

There was a belief amongst those who had not commenced succession that health issues may be a key trigger to initiating the process, but this has not proven true for those who have completed succession or are in the process.

Principal outcomes

For those business owners who have completed their succession journey, the vast majority consider they have achieved the principal outcomes (goals) they had set before having commenced their succession process.

Most common advice from respondents – “Start earlier”.

Number 1 trigger

Number 2 trigger

Number 3 trigger

87.9% of respondents who set principal outcomes achieved them.

What were the principal outcomes that they were seeking (ranked in order of importance):

1. Continuity of the business
2. Family harmony
3. Ongoing jobs for employees
4. Keeping the business in the family
5. Leaving a legacy
6. Selling the business for the best price.

Interestingly, 'selling the business for the best price' diminished in importance by two-thirds as succession progressed towards completion.

Barriers

Many families faced real hurdles in being able to deliver a successful succession process. The most prominent of these was the financial capacity of the business to support the expanded family of the incumbent generation and the new generation. These challenges were expressed in various ways and included:

- The capacity of the business to provide adequate financial returns
- The capacity of the business to support retirement
- The capacity of the business to support the next generation
- The general economic uncertainty in their sector.

The other real challenge faced by families was ensuring the fair distribution of assets among family members. The importance of this challenge increased as succession progressed to become the single most important challenge.

86.6% agree

73.5% agree

72.7% agree

61.2% agree

49% agree

30.4% agree

Selling the business for the best price was not the most important outcome sought.

Ranked 2nd

Ranked 3rd

Ranked 5th

Ranked 4th

Ranked 1st

A Spouse's Perspective

Outcomes sought

“Professionalisation to enable business longevity beyond family involvement.” – Australia, 62

“Maximisation of financial resources [and bringing] prosperity and accountability to local community.” – Brazil, 43

“Keep the family business.”
– Slovak Republic, 47

“Manage those wanting entry to the business.” – Australia, 52

“Ensuring the next generation has the skills to run the business.”
– Ireland, 55

“An agreed, equitable plan enabling siblings and cousins to work together with certainty about their future.” – United Kingdom, 54

“Continuity and harmony.”
– Australia, 67

Toughest decisions

“To choose which child will be the successor.” – Slovak Republic, 47

“How to fairly transition the business and assets to the next generation – including asset protection from marriage breakup.” – Canada, 58

“There is no single ‘tough one’... there has been much collaboration and open discussion in the somewhat turbulent waters of the changing tides.” – Australia, 60

“Leaving control to someone else”
– Canada, 67

“Timing.” – Ireland, 55

“Finding a good consultant to help us through the process that understood the unique needs of a family business.” – USA, 46

The legacy

The continuity of a business which has kept the family focused on a single objective of maintaining harmony in the economic environment.” – Panama, 50

“[We] want the business to continue for many more generations. We view our role as custodial.” – Australia, 52

“Our good reputation.”
– USA, 62

“Setting up a healthy sustainable business that provides well for the future to family, employees and environment.” – Australia, 51

Greatest achievements

“A smooth and successful transition to the first non-family CEO. Not there yet but hopefully [this is] a new, strong CEO to lead our company.” – USA, 46

“It is not complete yet, but I think the greatest win is the business continuity plan for clients and staff with the ‘culture’ and core values that have made it a success for the last 30 years.” – Australia, 60

“Agreement with relatives.” – Panama, 50

Lessons learnt

“The need to recognise and reward varied contributions and sacrifices made by different family members.” – Australia, 45

“Insist on regular family business meetings with good accounting of the financial position of the business to all generations.” – Australia, 63

“Think and develop a succession plan over time.” – Panama, 50

“At the end of the day, the business has achieved what we set it up for and it is just a business. Having said that, there are well established policies and procedures, and [a] workforce which make it a thriving entity which provides for our employees to achieve what they need to in their own families, and helps our customers and suppliers to achieve their own goals, so [the business is] worthy of maintaining. The key is to allow [it] to continue without it being at the expense of our family and relationships ... in a perfect world.” – Australia, 62

Although Spouses were concerned with maintaining family harmony and discussion about family issues such as ‘death, divorce and disenchantment’, they also

showed support for continuity of the business in the context of its wider community of employees, customers and suppliers.

Spouses also recognise the need to protect assets and ensure a fair distribution of wealth, but not at the expense of family relationships.

Dynamics

Understanding and managing the dynamics of the succession process are key to delivering a successful succession outcome.

Key aspects of the dynamics include the core focus of the succession process, the role and choice of key advisors and how family members interact with the process.

Focus

The core focus (or rationale) of the succession process, including the outcomes sought, is critical. If succession is viewed as 'retirement' then the transition to the new generation of owners/managers (whether family or not) will not be as effective as it could be. As noted previously, the major principal outcomes sought lie in continuing of business, jobs for employees and family harmony and not exiting or selling up.

A window to the dynamics that exist in succession may be gained by considering the main priorities that families considered during their succession process. These include (in order of importance):

- Formal documentation of the succession plan
- Succeeding generation felt trusted and empowered
- Equitable inheritance for all family members
- Identifying the best person for the job.

An interesting dynamic in successful succession processes is the evolution of the focus on these priorities. On commencement, it was skilling up the next generation, in transition it was ensuring an understanding of the demands of the business and by conclusion it had shifted to the importance of formal rules and processes and equitable inheritance solutions. This evolving focus reflects the skilling up of the new generation through to empowering them with formal governance processes.

The concern with determining a fair distribution increased three-fold as the succession process commenced.

Advisors

One of the aspects commented on by many respondents was the importance of acquiring independent professional succession advice but also the real difficulty in locating and securing this advice. Many respondents turned to family and friends for advice but the key groups were accountants and lawyers.

Thinking of 'Succession' as retirement is a key barrier.

Priorities change as the succession process advances.

Number 1 - accountants
Number 2 - spouses
Number 3 - lawyers

Those respondents who reported their succession process was orderly and straight forward with low levels of conflict ranked accountants and spouses as their most trusted advisors. In comparison, those respondents who reported high levels of conflict in their succession process ranked their lawyer and other advisors are their most trusted, with accountants and spouses being ranked much lower. The presence of a lawyer as a trusted advisor may simply be a reflection of the fact that there was high conflict. However the interesting feature is the lack of the spouse's presence as a key advisor and its impact on the level of conflict.

73% agree

Spouse

The role of the spouse is critical in the new era of succession. Spouses were key advisors to respondents who considered they had successfully completed their succession process and achieved their principal outcomes with little conflict. Spouses in the succession process were mainly concerned with (in order of importance):

78.6% state succession outcome supported by the majority of family members.

- Ensuring family harmony is maintained
- Gaining clarity around ownership and inheritance for the incoming generation
- Determining fair inheritance especially for those not coming into the business.

These dynamics which attract the attention of the spouse are key in a succession process and must be carefully managed to achieve successful outcomes.

76.9% believe their spouse is satisfied with the succession outcome.

Sons and daughters

The role of sons and daughters has changed quite dramatically in the new era of succession. The assumption that the first-born son is the natural leader is no longer prevalent, as is the belief that sons are required to take over the business.

69% agree

Although there is a growing acceptance of daughters in senior management roles they still track behind the position of sons.

A Son's Perspective

Outcomes sought

“General order. Remove bad business practices. Professionalize management.” – Costa Rica, 40

“To define the competencies of successors to prevent the crash of the business.”

– Slovak Republic, 27

“Ensure growth and family support.” – Panama, 39

“Making provisions to see that my sisters are compensated financially, as I take over the business.”

– Canada, 45

“To ensure that there is smooth takeover without affecting the quality of service and business fundamentals.”

– United Arab Emirates, 29

“To enable the business to run successfully.” – Ghana, 33

“Good relationships maintained and healthy finances.”

– Australia, 27

“Exchange of generations and a healthy, thriving firm.”

– Slovak Republic, 38

“Clear expectation from new generation. Competent board. Old generation not to intervene in day-to-day matters.”

– Mauritius, 37

“Smooth transfer of power and successful business afterwards”

– United Kingdom, 42

“Retirement [of father] while retaining a non-exec or chairman role.” – Hong Kong, 44

“Sustainable growth.” – Cyprus, 26

Toughest decisions

“Candidly ... Getting started. It is very time consuming and takes away from the day to day running of the business.” – USA, 43

“Choose the leader.” – Greece, 37

“Father wants me to take over entire business so it can continue to grow and support him although he will be retired. Trying to decide if I actually want to run the business.” – Australia, 40

“Who succeeds.” – Ghana, 32

“To follow advice.” – Belgium, 44

“Choice between the studies and family business.”

– Slovak Republic, 24

“Establishing the rules for participation of family members in the family business. Do we take in any nephew / niece or cousin who wants a job? What are the requirements in terms of education and / or experience? How to deal with the lazy cousin?”

– Panama, 31

“To keep the business in the family or to sell it.” – South Africa, 46

“Ownership distribution in the next generation of family members – whether based on the number of children or equal between parents.”

– India, 33

“To sell the company or not.”

– Romania, 32

“Do a proper organisational structure.” – Costa Rica, 22

Lessons learnt

“Outside help is surprisingly valuable. My father and I have a great working relationship and great relationship outside of work. Open communication flows smoothly. I think our situation is one where succession is as simple as it can possibly get. That said, we still needed to bring a third party in to help get us over the hump of the transition.” – USA, 36

“The great lesson is if we communicate more, better results.” – Dominican Republic, 40

“Formalise more steps and planning.” – Brazil, 37

“[Succession] is very important, but it is often seen as a difficult step because the founder leader might feel that this is ceding control.” – Nicaragua, 36

“Interested in the business from minute one. Willingness to understand everything that has been done to date and – at the same time – be critical with the previous generations as a way to improve (the business).” – Angola, 36

“The earlier it is done and defined, the better. [It] saves time, money and aggravation later.” – India, 33

“Building something of value and having it endure is something to be proud of.” – Canada, 38

“Complete understanding of the weight of responsibility on my shoulders and that a dividend has meant that there has been hard work – it is not simply a given.” – United Kingdom, 33

“Take your time to get it right.” – Australia, 43

“As a younger generation in the family business, with some skills consolidated, I feel it is important now to start being given the opportunity to have more involvement in decision making processes and to have open discussions amongst all directors and their partners (as it is a small family run business with spouses working for the business on a voluntary basis). Without clarity and consistent decision making processes, small cracks are already starting to form in the family.” – Australia, 27

“[Legacy is] to continue the work begun by my grandfather. I have not been able to resume [working in] the family business due to a lack of communication with my father, who wanted to, but has never really talked to me. Today, I know that I always hope to [go back]. But I have decided to make my life another way. Better communication could allow understanding.” – Belgium, 35

Sons prioritise the business and business success, however they also demonstrate a keen sense of responsibility in terms of growing the business and catering for family members.

They recognise the need for good process and outside professional support in achieving effective succession.

However, communication with the older generation and meeting their expectations can be a real challenge.

Success Strategies

The journey of succession for families and businesses that have not yet built succession into their DNA is one best described as orienteering. It is a process of establishing goals and then mapping a path towards them whilst traversing the landscape and avoiding the various challenges that succession throws up.

They must make themselves 'succession ready' which means they are equally prepared for transition as they are for sale and redeployment of that realised wealth.

The eight guiding principles identified and explained in the interim findings report provides guidance in orienteering the succession journey. These principles are listed below and further explained on the following pages:

1. Succession is not retirement
2. Start with readiness
3. Set your goals before the journey
4. Harmony is a must
5. Price is not first
6. Plan early, start earlier
7. Equality is not equal
8. Ask before you get lost.

Armed with these principles families must orienteer their way through:

- Establishing specific goals for the current transition
- Adapting to the needs and capabilities of the existing family
- Establishing a wealth map and how entitlement and control will be transitioned
- Creating a viable and competitive future for their business
- Understanding the role of legacy in this journey.

The risks and challenges are many and they must be aware of each of these and guide the family and business around these barriers. However, for those families and businesses that successfully make the journey the rewards can be great and enduring.

The focus is on business continuity, ongoing jobs for employees and family harmony. These are the ingredients of success for 'families that are in business'. They represent families that transition not just wealth but the skills to grow and compound that wealth across generations. This is the new era of succession in family businesses.

“Don't embark on something you have never done before without the advice of trusted experts.”
– USA, 68

“The greatest lesson is that the more we communicate the better results achieved.”
– Dominican Republic, 40

“Motivate and empower the successor and everything else is easy.” – Canada, 66

The eight principles explained on video

To hear the eight principles explained on video, follow the link below or scan the QR code to be taken directly to the site.

<http://bit.ly/UMbBnE>



Principle 1: Succession is not retirement

The first principle is about getting your head in the right place. If you believe succession is about growing old, stepping down, surrendering, giving up, not being able to contribute anymore or anything along these lines, then you have lost the succession process before you have even commenced. A negative belief about what succession represents will not allow you to engage in the process in the manner that is required to deliver the success you are ultimately seeking to achieve.

You and everyone who will support you in this process must see succession as being about the evolution of the business. It is about growth, opportunity and building the future while you are there today. It is about the incumbent team taking responsibility for future proofing the capital value of the business by ensuring that the next team is capable, competent, experienced and will be able to take the business to the next level. Succession is the legacy you leave.

Principle 2: Start with readiness

Before you commence any serious journey, preparation is a must and the journey of succession is no different. The incumbent team and the next generation team must get ready for the succession process as it takes time, commitment and motivation. For any critical change management program, a clear start is important. The succession process needs a clear and committed start and not something that drifts in and out as time permits.

Establish a process, formalise it, timetable it, monitor it and commit the necessary resources. Discuss the process openly, identify possible limitations and barriers before commencement and remove as many as you can.

Question:

Do you have your head in the right place?

Question:

Are you ready, is your process in place and have you committed the necessary resources including time?

Principle 3: Set your goals before the journey

The importance of establishing and setting your goals before you commence your journey cannot be overemphasised. Write down the outcomes/goals you want to achieve from the succession process. They must be clear and measurable but, more importantly, they must be compelling. If what you are seeking from the succession process is not energising enough to engage everyone supporting the process then you will not devote the time or resources required and will not have the energy to get over the inevitable challenges that will arise.

The goals that you establish before you commence will instruct and guide everyone participating in the process. They will:

- Provide the motivation required
- Act as the lighthouse to guide your direction
- Provide a basis for agreement of intent and expectations by participants¹
- Allow the development of a clear path for delivery of the succession process
- Serve as a benchmark against which to measure the success of the process
- Provide a basis on which to focus external advisors on the outcomes you are seeking.

Principle 4: Harmony is a must

Creating, sustaining and enhancing harmony through the succession process is a must.

Harmony will support and deliver on your goals and will weaken and remove any barriers that might exist in achieving the initial goals you have set. Harmony with everyone involved in the process is what you must seek to achieve, but harmony does not mean conceding or being weak. Harmony requires that you communicate well and openly, that you listen (yes, that means really listening and appreciating others' positions), that you actively invite contribution and provide active updates of progress.

1. The development of a Family Charter with family members prior to the commencement of a succession process is an excellent way of establishing expectations and contribution by members. It also creates a forum for discussion prior to commencing the journey.

Question:

Have you clearly articulated and communicated a set of compelling goals?

It also means that you keep an absolute focus on achieving the initial goals set and on business continuity and ongoing jobs. Harmony is about integrity and keeping true to the outcomes set and, if this requires that one of the participants will not achieve their preferred outcome, then harmony requires that you communicate this clearly, explain why and uphold this position.

In engaging with family and other persons involved in succession, you must recognise that they are seeking certainty about the process and their future. They wish to feel a sense of contribution and a positive outcome where there are opportunities for individual growth.

Principle 5: Price is not first – key considerations

The focus of the succession process is on ‘continuity of the business’ and ‘ongoing jobs for employees’. No matter what your intent is, whether to sell, retain or transfer the business, these goals do not change. Getting the best sale price is not the first consideration, rather it is an outcome of the focus on continuity and jobs.

Succession is about underpinning and growing the capital value of the business. This is achieved by providing certainty (the expression ‘capital value lies in certainty’ is very true), identifying the capital value drivers of a business and investing in them. When the capital drivers are identified, the questions you must ask to ensure they are correctly identified are:

- Do we own them?
- Can they be transferred?
- Are they durable?
- Do they deliver greater customer value and therefore competitiveness?

The competitiveness of any business lies in its employees and the relationship built with leadership, therefore a focus on ongoing jobs builds the competitiveness of any business. If you focus on continuity and ongoing jobs, you are in fact drawing your focus to the capital value drivers of your business, which in turn supports sale price should you one day decide to sell.

Question:

Is harmony a number one priority and do you have a communication plan to achieve it?

Question:

Is your absolute focus on continuity and ongoing jobs?

Principle 6: Plan early start earlier

You cannot start succession planning too early, bearing in mind that succession is about business continuity, ongoing jobs and building the capital value of a business. These are outcomes you want to achieve the moment you begin to think about starting a business and will continue for as long as that business exists.

Establishing your goals before you commence the succession journey will allow you to develop a goal achievement plan to deliver on these goals. Part of the plan is to identify the stepping stones that will allow you to more easily achieve these goals.

A key aspect of your planning is to establish and understand the financial requirements (the financial needs) of the combination of the business, the generation that may be exiting and the generation that may be entering. For effective succession, the business has to be able to meet these combined needs, or expectations will need to be managed to a level which can be met by the business.

The process of building the financial capacity of the business to cater for the growing needs of additional generations of the family takes time and must be understood, planned for and acted on, well in advance of these needs materialising.

Principle 7: Equality is not equal

If you have family, one of the key challenges you will face is finding the right balance of participation, ownership and distribution of wealth in your succession process. If some family members are, have been or might one day in the future be involved in the business and others won't, then this is a challenge that you will need to address to ensure the continuity of the business and harmony.

In deciding how your wealth may be allocated in the future and, at the same time, seeking an outcome that will underpin and support family harmony over those decisions can be a real challenge. Your guiding principle is that equality does not mean equal, rather you must seek to be fair based on the historical and future contribution that family members have made, and will be expected to make.

Question:

Are you planning well ahead of the need to act and deliver, and are these plans clearly articulated down to stepping stones that will need to be crossed?

This will require you to:

- Involve early and openly all family members that your decision may impact
- Establish, explain and seek contribution to the basis/principles upon which you will make your decisions
- Determine the impact that your decisions may have on individual family members and discuss this with them
- Keep everyone informed and maintain an open dialogue
- Make sure you engage with and include your spouse/partner in these discussions (they will be one of your most important advisors)
- Make a decision that is fair and clearly communicate your decision and reasoning.

Principle 8: Ask before you get lost

Succession can be a complex process and one where you may well need independent professional advice. Seek this advice very early and continue to retain that support throughout the process. Identify an advisor who you trust and who has the relevant experience prior to commencing your succession process. Openly discuss with them your intentions, thoughts, concerns and seek their guidance.

The first task is to establish, if you have not already done so, your initial goals and the compelling reasons that accompany each goal. If you have already set these then review and discuss them with your advisor. These goals will be your 'lighthouse' so set them carefully.

In seeking an advisor select someone who is mature (not necessarily old) and who will focus on the business, family and personal outcomes you are seeking. The taxation, estate planning and legal advice that you will require comes later and can be readily provided by specialist advisors in those fields. Commencing with, for example, taxation advice before you understand the business outcomes that you are seeking can result in a taxation driven solution which may not align best with your goals.

Seek your succession advisor wisely and allow them to work with your existing taxation and legal advisors so as to achieve the best blend of succession expertise and knowledge of both your business and family.

Question:

Have you started to consider what a fair allocation of wealth may look like and engaged in discussions with those that it will impact?

Question:

Have you selected and met with your succession advisor?

A Daughter's Perspective

Outcomes sought

“Ensure the stability of the company.” – Germany, 38

“Father would hand over to daughter, who would infuse new ideas and energy into the business and turn things around in the struggling company.” – Ghana, 32

“The business has to stay within the family and the succession has to be done with a low tax result.” – Sweden, 36

“To raise the income and develop the activity of the company.” – Ukraine, 26

“Company transfer in the family.” – Slovak Republic, 40

“Successful transition of profitable business to achieve mutual outcomes.” – Australia, 28

“Smooth succession” – Hong Kong, 43

“Transfer of knowledge.” – Israel, 32

“Establish a course of action to keep the business group and prevent damage due to conflict between successors.” – Peru, 29

“Professionalize the business.” – Brazil, 29

“Planned and orderly management.” – Spain, 36

Toughest decisions

“To be calm and accept the conflicts.” – Malaysia, 28

“Who will take over, and will there still be an opportunity for the business.” – Ireland, 27

“Stay in the same industry or expand into others with possibilities in the future.” – Spain, 29

“Dad has so much of the knowledge the business can't run without him, having to get him to transition out.” – USA, 45

“Breaking free of stereotyped roles (from a gender point of view) as the key successor is female and is also reaching the stage of family planning.” – Australia, 30

“Having to let some employees go.” – Ghana, 32

“Who would take care of the business.” – Panama, 27

“Selecting a potential successor.” – Trinidad and Tobago, 25

Greatest achievements

“That a step is taken towards succession to show the generation before me that we can handle the business.” – Sweden, 36

“The establishment of governance bodies within the business and family for making decisions.” – Dominican Republic, 38

“Set up procedures and employee structure so that when the main director (my father) retired we were able to maintain client confidence and have also built new clients.” – Australia, 33

“Profit from young generation's ideas.” – Slovak Republic, 25

“The incoming generation was pushed to a new level within the company and have grown personally and professionally as a result.” – USA, 39

“Financial performance and business continuity.” – Panama, 37

Lessons learnt

“The line between business and family is somewhat grey! The family relationships must be solid to avert conflict in the future as by engaging in such discussions means all parties involved must be willing to put their relationship on the line.” – Australia, 30

“All family businesses should have a succession plan that ensures, in a way, business continuity.” – Peru, 40

“It is necessary to make a compromise.” – Slovak Republic, 33

“It is imperative to plan for succession to be successful. Begin planning early and discuss it often. Be open to new ideas and opportunities. The vision you have may not be the vision of the next generation and you must work together to achieve continuity for the business.” – USA, 39

“The process need not be chaotic. If you choose your successor early and groom him/her to take over, as was done in my case, then the transition is easy because all stakeholders - other family members and even employees - understand from the very onset what the process is going to be and who is going to head the business.” – Ghana, 32

“It is something we know needs to be completed but the task appears overwhelming and starting is a scary idea to overcome.” – Canada, 48

“We have only just begun the process. Personally, learning the history of the business, both good and bad, has been very enlightening and informative from the point of view of learning from previous ventures. [We] lack [succession] knowledge so are in search of tools to assist. I believe it is imperative for family members to explore work opportunities external to the business to ensure working in the family business is the best option for all involved. Working externally also enables the person to gain knowledge, skills and experiences they otherwise would not have gained if they remained in the business.” – Australia, 30

Daughters who were taking an active role in succession and in the business showed compelling support for the innovation and

entrepreneurship of the younger generation in the growth of the business. There was an understanding that business

continuity was the real foundation of succession and that, in a family context, communication and teamwork were required.

Country Profile – USA

USA v. Rest of the World

The percentage of Baby Boomers in the USA who participated in the research and completed the survey was higher than the rest of the world. This may well have influenced the rate of completion of succession plans in the USA which was also higher.

However a completion rate of 20.2% still leaves 79.8% of the Baby Boomers generation that have yet to fully address this pressing issue. Baby Boomers represent 25% of the USA's population.

The no. 1 trigger for the commencement of the succession process in the USA was advice from external parties including estate planning and taxation advice, whereas a 'readiness to step down' was the key trigger in the rest of the world.

When it came to outcomes sought from the succession process, for those who had completed their plans, the USA was out of step with the rest of the world. For the USA the number 1 outcome was the 'creation of formal documentation' whereas the rest of the world was focused on 'equitable inheritance for all family members'. Also interesting was 'finding the right person for the job', which the rest of the world ranked as number 2 and the USA ranked as number 5.

The importance of formal documentation however unclear with the USA recording a lower uptake than the rest of the world for formal family meetings, family charters, family councils and the use of independent advisory boards.

This is surprising given the USA reported a much greater likelihood that businesses would be retained as a result of the succession process.

Daughters did not gain as great a level of support in being encouraged to take up senior executive roles in the USA as they did in the rest of the world although sons were not seen as the natural heir.

The level of conflict in the succession process in the USA was materially higher than the rest of the world and lawyers ranked as a more important advisor than spouses in the USA. In the rest of the world spouses were considered important advisors in reducing conflict.

A final point is that maintaining family harmony was not considered as important in the succession process in the USA as it was in the rest of the world.

20.2% v. 14.7%

79.8% of Baby Boomers yet to complete succession plans.

29.4% v. 22.6%

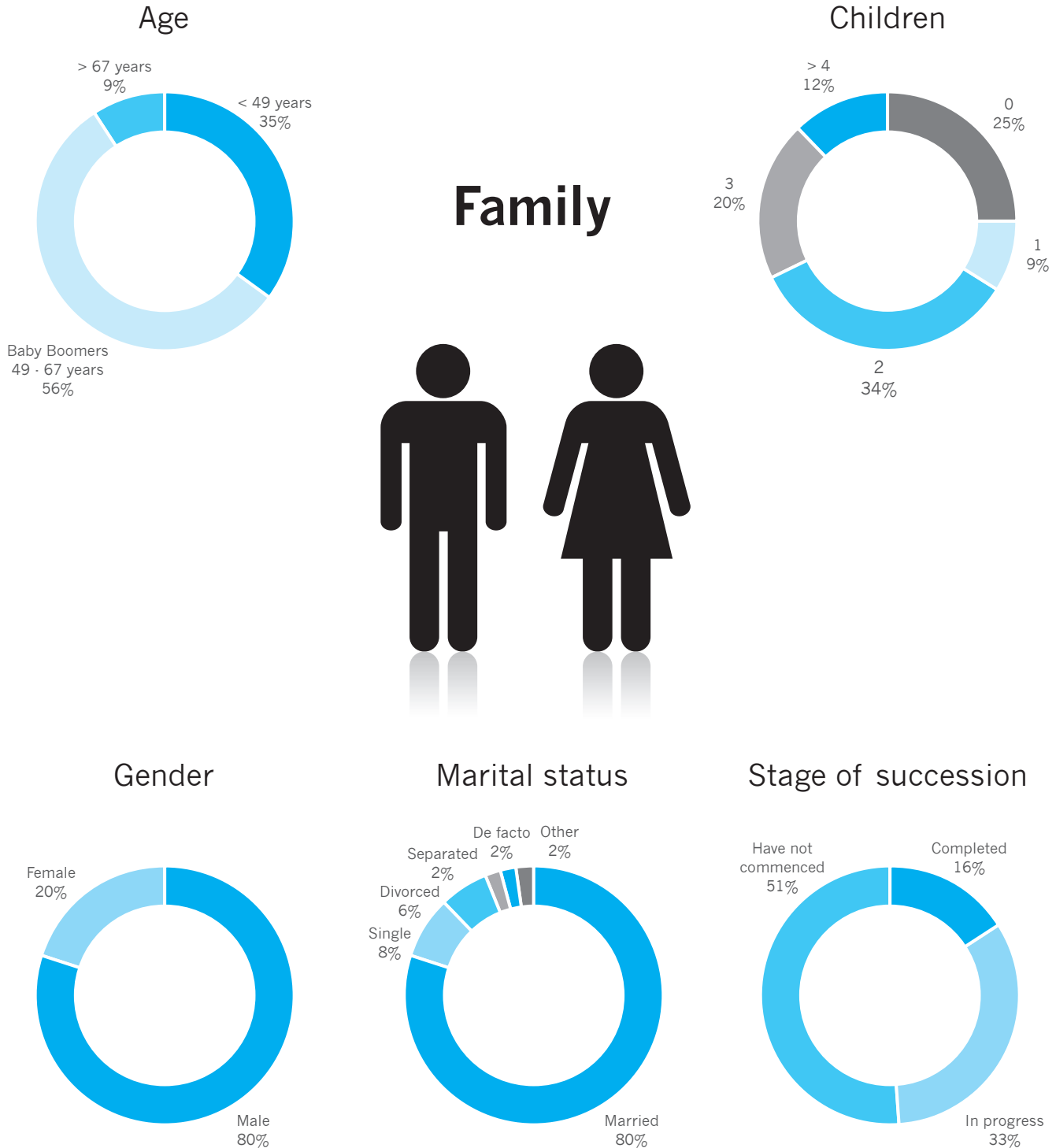
72.6% of USA businesses reported not having considered the use of independent advisory boards as part of their succession process.

The importance of selling the business diminished materially during the succession process from being greater than the rest of the world to being more than 40% less than the rest of the world.

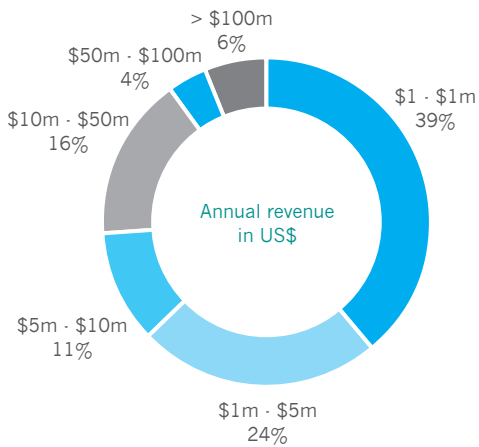
Only 5.9% of USA businesses strongly considered the eldest son as the natural heir.

65.3% of USA respondents did not consider maintaining family harmony as important.

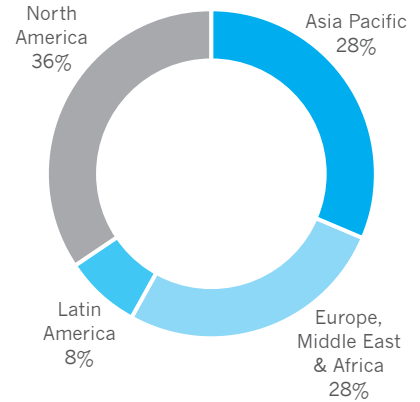
Profile Of Survey Respondents:



Size of business



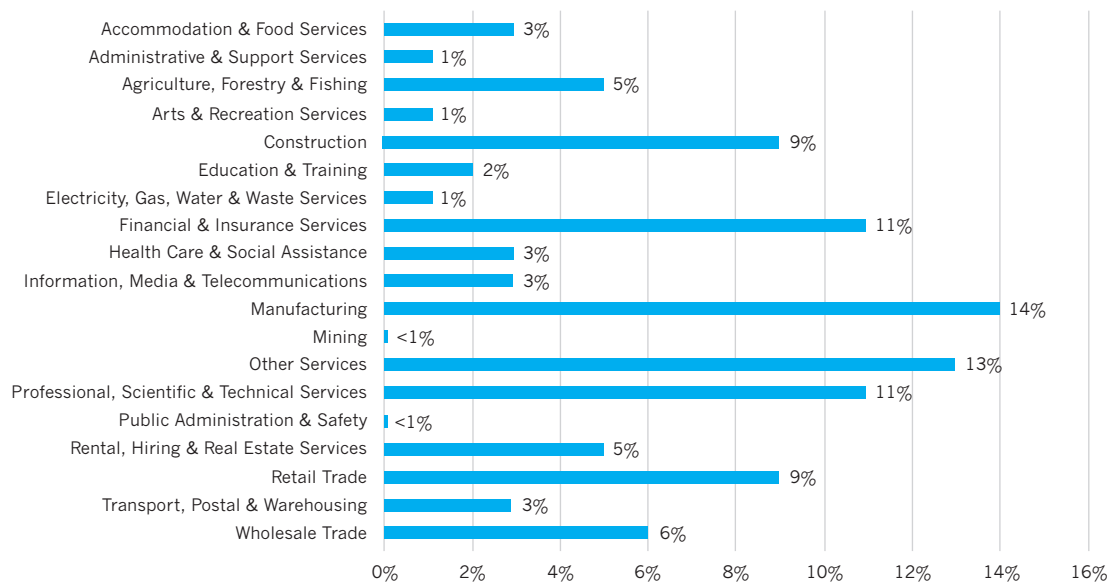
Region



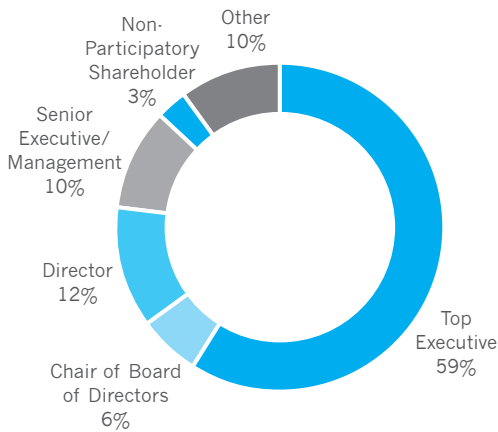
Business



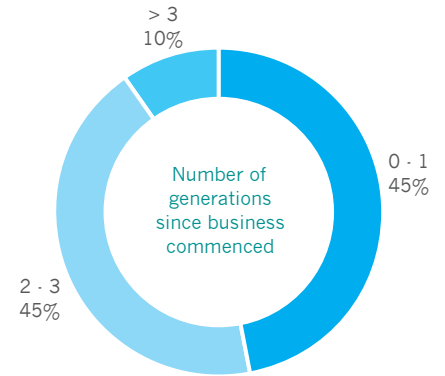
Industry



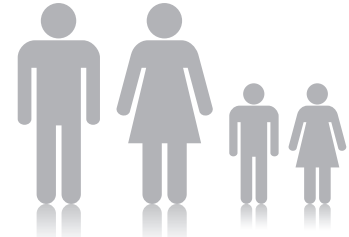
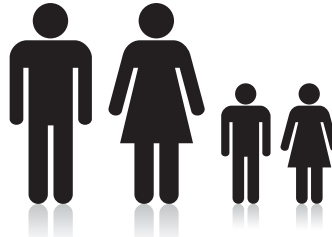
Role in the business



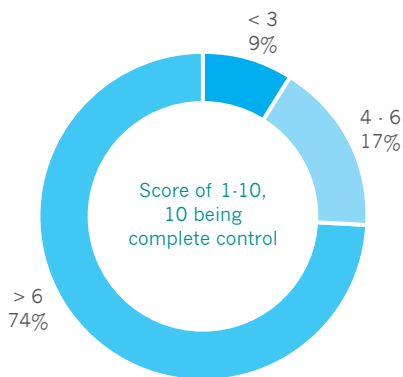
Generations of the business



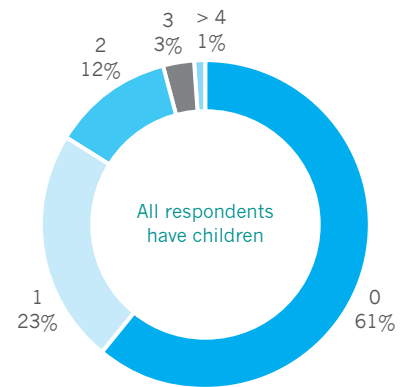
Family and Business



Level of influence on succession



Children working in the business



About The Research

This research has been undertaken over the last four years and comprises a review of the existing literature, in-depth interviews with 77 persons across 49 families and the analysis of survey responses by some 2,650 persons across 56 countries in nine languages.

The unique aspects of this research are:

- It is structured to focus on the dynamics, barriers and success strategies experienced in a succession process
- It considers respondents' experiences from the three perspectives of having completed a succession process, being in the midst of a succession process and not yet commenced, and therefore provides alternate perspectives of how experience varies across the journey of succession
- It is focused solely on the issue of succession and is not part of a general family business survey
- It is a global survey that is being conducted across some 56 countries in nine languages.

The research team involved in the conduct of this research and the analysis of the data gathered involved a team of persons from Baker Tilly Pitcher Partners and Swinburne University of Technology, both of Melbourne, Australia. This team was greatly assisted by the support of the member firms of Baker Tilly International who participated in this research effort through the promotion of the quantitative data collection in their respective countries.

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The growth of Baker Tilly International member firms has come through the development of their clients' businesses and the strength of their reputation. We act for the various generations of our clients, working hand in hand with them in growing their businesses.

Generational change within any business is an irresistible force and the growth of wealth demands that it be given early and appropriate attention. Baker Tilly International member firms understand the implications and impact of such change on businesses from a diversity of industries and on families from many varied backgrounds. We have walked with our clients through this journey, providing practical, honest advice based on long experience and specialised knowledge. Our focus is always on helping our clients identify, clarify and achieve the outcomes that best suit their unique circumstances.

Allow us to guide you through the generational change in your business and you can be assured of the support, experience and expertise of our most senior people.

About Swinburne University

Swinburne University of Technology (Swinburne), Melbourne, Australia is Baker Tilly Pitcher Partners' research partner in the conduct of the succession planning research. Swinburne is ranked among the world's top 3% of research-intensive universities¹. Swinburne traces its origins back to 1907 when George Swinburne put forward his proposal to establish a technical college to provide equal opportunity by increasing the facility of education.

Today, Swinburne is a progressive university that aims to increase Australia's capacity in science, technology and innovation as the drivers of modern, internationalised economies and workplaces. It is focused on high-impact global research, high-quality teaching and active engagement with both industry and the community.

Swinburne and Baker Tilly Pitcher Partners have combined their expertise and experience in undertaking this research project which is supported by an Australian Research Council grant.

Professor Michael Gilding, Executive Dean, Faculty of Business and Enterprise and Professor Russell Kenley, Professor of Management are joint Chief Investigators along with Dr Richard Shrapnel.

1. Academic Ranking of World Universities.

Compounding of Wealth

Generation to Generation

A Sense of Contribution

Individual Growth

Family Unity

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