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The Personal Law Firm

FAMILY BUSINESS SUCCESSION

Family Business

Family businesses are unique as trading entities. They are defined as enterprises controlled by family members. Often there will be a significant amount of family involvement in the business and the successful ones will usually span the generations. For the successful family businesses, the family dynamics are often factors in lifting the business to a higher level and adding greater depth to the relationship between family members. On the other hand, family relationships may well create emotional issues, barriers and challenges not faced by other types of businesses. The interrelationship of family roles and business roles may result in a complex environment. Those family businesses that successfully manage this environment are rewarded with an institution that makes both family and business life far richer than either could alone.

Succession Planning

Business Succession Planning is founded on the basic idea that “prevention is better than cure”. Challenges are an unavoidable part of the life of a business. A business that has prepared and planned to meet challenges is often able to deal more successfully with difficult times than those that are not prepared.

Often, the biggest challenge for the continued survival of a business is when a key person leaves the business. A business that has succession plans in place and implemented is more likely to survive the transition period successfully and even profitably.

Business Succession planning has as its objectives the following:

- To clarify business goals;
- To plan for the long term health of the business;
- To provide financial security for the various parties involved in the business;
- To ensure a smooth transition following the retirement, incapacity or death of a key person; and
- To achieve the long term viability of the business.

In the context of a family business, succession planning is critically important. Succession planning can be seen as the ultimate test of a family business.

There will come a time in the life of a family business when the founder will need to make plans for the transfer of ownership and management. Appropriate succession planning will ensure that the business is transferred smoothly, with minimal disruption to the business, and the business enterprise will continue to grow and prosper, providing a lasting legacy to the founder.

The Options

There are a number of options available to the founder of a business in planning for the transfer of their family business. These include:

- Keeping the ownership and management control of the business within the family;

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- ☑ Keeping the ownership of the business within the family but allowing for non-family members to participate in the management of the business;
- ☑ Selling the business to a non-family member.

In considering which option to take, the founder will take into consideration various personal, family and business related factors. The interrelationship of these factors will ultimately govern the succession process. The success of the family as a whole in dealing with issues raised by these factors is what “makes or breaks” the business succession process.

To assist you in beginning the business succession planning process, below are some of the questions from which the family as a whole can benefit through discussion and exploration :-

- Is the business perceived by the family as a family business?
- Is the business to remain as a family business?
- What are the vision and goals of the family for the business?
- How do the family’s values compare with the business’ values?
- What are the roles various family members play in the business?
- What are the roles various family members want to play in the business?
- What are the strengths and weaknesses of various family members and how does that affect the business enterprise?
- Will there be positions in the family business for all interested relatives?
- Are there any special conditions for entering the family business?
- How will management be structured to accommodate family relationships?
- How will ownership be structured to accommodate family relationships?
- How will conflict among relatives be resolved?

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