

SUCCESSION PLANNING

What happens to family businesses

Family Matters Section 5 Topic 1

The RETAILER programme aims to provide practical resources for independent retailers in the Eastern region, backed by the support of intermediate mentors and the RETAILER website www.independent-retailer.com

The RETAILER programme is supported financially by the European Social fund (ESF). Elements of the RETAILER programme build upon the APU SESAME programme. If you are interested in joining the RETAILER programme, please complete and return the form at the back of this document.

This RETAILER topic is based on Topic 1, *What happens to family businesses*, from Section 5, *Exit*, of the SESAME Family Matters materials.

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Topic 1 What happens to family businesses?

'...only 30% of family businesses in the UK reach the second generation, and only 13% survive through the third generation...'

'Staying the Course,'
a report by London
Business School, in
association with Stoy
Hayward, 1989

These figures show what a high failure rate there is among all family businesses when it comes to passing on the business to future generations of the family. Of course, not all family businesses are set up with the long-term vision of creating lasting, multi-generational concerns; some will be created purely to serve the founders' needs and will be wound up or sold off when those needs have been met. Yet there is evidence that the high mortality rate among family businesses is partly caused by a failure to plan properly for the time when the founder (owner-manager) of the business decides to retire.

This topic looks at what factors influence the owner's decision to leave, give up control of, or end the business. It then considers what the options are in this situation.

When to stop?

In every business, there are crucial transitional stages – similar to the periods of transition in people's personal lives, discussed in Section 2, Topic 2. One of the most significant phases comes when the person or people running the business decide the time has come to stop. It is significant because the whole future of the business depends not only on what decision is reached, but also on *how* it is reached.

There are many reasons why owner-managers leave the business: reaching retirement age is one of the most compelling reasons, but there are plenty of other factors, such as:

- a good opportunity to sell the business
- ill health
- a change in family circumstance, such as death or divorce
- pressure from partner
- pressure from other family members in the business (especially the next generation)
- loss of interest or wish to move on to another business or personal project
- changes in the business environment.

In some situations, these pressures may combine to persuade an owner-manager to withdraw from the business, as in the example below.

What are the options?

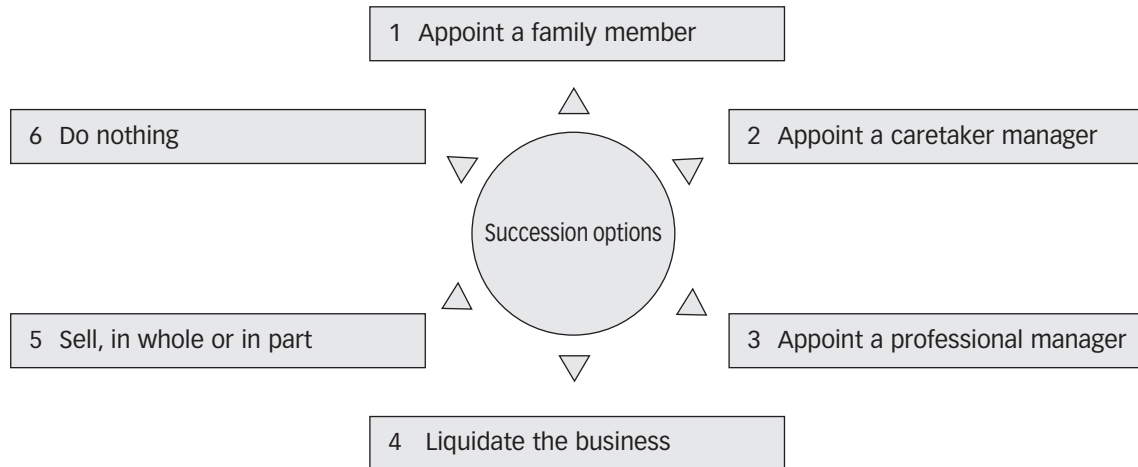
When the owner-manager of the family business decides the time has come to go, the questions are: What next? What are the options?

I was 62 when I had my first minor heart attack. It was a warning, my doctor said. I should 'take things easier'. Easier said than done, with a business to run and 30 people's jobs depending on me. Still, lying in a hospital bed forced me to take stock. My wife had been on at me for a while to spend less time on the business – she wants us to buy a house in France and spend more time there nearer her daughter. My two sons are both senior managers in the business and I know I can trust them to take good care of the business – or at least I think I can.

**Albert, MD of family
engineering firm**

Activity

The options available to the owner-manager facing the question of succession are summarised in the diagram below.



Source: Leach and Bogod (1999), p. 162

Options 1, 2 and 3 all involve keeping the business intact and handing it over to a successor, whether that is within the family (option 1), or to a manager or management team from outside (option 3). Option 2 is a hybrid of the two, whereby a non-family manager takes over the running of the business, while a successor from within the family is groomed to take over at a suitable point. In all three cases, the family can retain control of the business, for example by retaining ownership or a majority shareholding.

Option 4, liquidating the business, essentially means ceasing trading and bringing the business to an end. It involves selling off the company's assets, laying off any employees and paying any outstanding debts. This option can be costly – in terms of liquidator's and other fees – and the receipts from sales of assets are likely to be at a price far below their value to the business.

Option 5, selling the business in whole or in part, is a way of getting the best value if there is no obvious successor to take over the running of the business.

The final option – making no plans for succession – is the one most likely to store up trouble for the future, for when the time comes for the owner to bow out, the most likely result is confusion (at best) and chaos (at worst). Amazingly, however, it is by far the most popular option amongst family business owners-managers.

Now that you've seen some of the RETAILER materials, would you like to benefit from the RETAILER programme?

Through the RETAILER programme, Anglia Polytechnic University offers Till Side Training for independent retailers in Cambridgeshire, Suffolk, Norfolk and Essex employing less than 250 people.

The training is backed by practical materials, relevant resources, the support of experienced mentors and the RETAILER website.

Retailing is a 'people' business. Supermarkets, department stores and chains spend a significant amount of time and resources training their staff. Product knowledge, customer service, merchandising and selling are prerequisites for working in these companies, but training also:

- demonstrates commitment to their employees and their professional development (for many employees, the offer of training is the reason for deciding which company to work for)
- forms the principal rationale that supports all quality initiatives from simple Quality Control right up to Total Quality Management.

The RETAILER programme is supported financially by the European Social Fund, and is free to beneficiaries. The RETAILER programme is intended to train you, train your employees, and help you train future employees.

To find out more about the RETAILER programme please fill in your details below and send a copy of this page to:

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