

# SUCCESSION PLANNING

## Non-family succession

### Family Matters Section 5 Topic 10

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](http://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 10, *Non-family succession*, from Section 5, *Exit*, of the SESAME Family Matters materials.

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## 5

**Topic 10 Non-family succession**

The diagram in Topic 1 identified the various options open to the owners of family businesses as they face the question of their exit from the firm. Two of the options involved appointing managers from outside the family, either as a permanent measure or in the role of 'caretaker'.

**Appointing non-family managers**

Although many family owners cherish the hope of passing on their prized business to the next generation, this is not a practical reality for the majority of them. In the UK, family succession is only a realistic plan for around 35 to 40% of businesses. Even then, not all of them will bring their plans to fruition. Furthermore, family size declines with prosperity, so it will be even less of an option in the future.

When faced with no obvious family successor, and yet wishing to keep ownership of the business within the family, the retiring owner's best option may be a non-family manager. The family can retain control of the business, for example by retaining a majority shareholding.

The main issues in this situation include ones of understanding roles, mutual trust, communication and reward, as the following table shows.

<b>Issue</b>	<b>Family members</b>	<b>Non-family managers:</b>
<b>Roles and responsibilities</b>	need to understand the limits of their involvement in the business	need to understand the scope of their role and where the boundaries lie
<b>Trust</b>	have to have confidence in the ability of managers to take good care of their major asset	need to feel confident that the family will allow them the independence to manage
<b>Communication</b>	should agree systems whereby they will be kept informed about the progress of the business	need to know that there are clear channels of communication open to the family
<b>Reward</b>	need to consider whether they are prepared to give the manager a controlled capital involvement.	have to have incentives to remain and be clear about the possibility of acquiring a share of ownership.

For businesses that reach the third generation or beyond, the route of appointing outside managers may be the only solution to succession problems as, by this point, the ownership of the company may be shared by a wide spread of relatives, all with different views about how their stake in the firm should be preserved. In this situation, it is even more vital that the issues above are discussed openly and agreements are reached, in order for managers to feel secure about the scope of their role and the support they will receive.

The question of reward has to be seriously considered. Since share options are increasingly common in quoted companies, it could be difficult to tempt high-quality managers into the business without the prospect of share ownership. However, for many families this is a very difficult prospect to face up to.

As businesses move into later generations, the family's involvement may become more and more distant, even to the point where it gives up its stake in the company, which by this time is run by an established hierarchy of professional managers and owned by an array of individual and institutional shareholders.

An era ended recently with the retirement of Sir Dominic Cadbury from the board of Cadbury's, leaving no member of the founding family on the board for the first time since the company was founded back in 1824 ... Sainsbury's and Moss Bros are among other well-known companies to have lost their boardroom links.

**Source: [www.newbusiness.co.uk/issue6/6keepinfamily.html](http://www.newbusiness.co.uk/issue6/6keepinfamily.html)**

The traffic isn't all one way, however – the family can make a comeback!

[In] the latest segment of Ford Motor's corporate soap opera, family scion William C. Ford Jr. ousted tenacious Chief Executive Jacques Nasser and took Nasser's title for himself ... the first time a Ford family member has run the namesake business since 1980, when Ford's late uncle, Henry Ford II, stepped down as chairman.

**[www.forbes.com/2001/10/30/1031ford.html](http://www.forbes.com/2001/10/30/1031ford.html)**

## Caretaker managers

The role of non-family managers acting as caretakers is rather different from that of the long-term professional manager discussed above. A caretaker or 'bridge' is someone appointed to tide the business over during an interregnum – a period between the exit of one family manager and the appointment of the next.

A caretaker is usually needed when potential successors are not ready to take over for whatever reason:

- they are too young or inexperienced
- they are committed to other business activities and need time to manage the change over to their new role
- they are not confident about taking over the role and want to 'shadow' the caretaker manager for a time.

The caretaker's relationship with the owning family will be rather different from that of a permanent professional manager, as the caretaker is by definition a short-term appointment, although there may be a role for them after the chosen family successor takes over, e.g. acting as an advisor or mentor.

Issues of communication will be particularly important, as both sides will constantly need to review progress towards the eventual hand-back of control to the family.

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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