

SUCCESSION PLANNING

Choosing a successor

Family Matters Section 5 Topic 5

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 5, *Choosing a successor*, from Section 5, *Exit*, of the SESAME Family Matters materials.

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Topic 5 Choosing a successor

This topic follows on from Topic 4 in looking at the issues involved when there is a strong desire for the family business to be passed on within the family. This topic considers the questions of who should make the decisions about succession and on what basis those decisions should be made.

Who should decide?

In family firms it is usually the outgoing owner-manager who has most influence in decisions about who will become the next guardian of the family firm.

Activity

What are the arguments for and against the existing owner-manager of the family firm making the choice of successor?

You probably noted that the advantages of the current owner-manager making the decision are that they are likely to have the clearest idea about the needs of the business and the demands of the role. They may have seen the potential successors 'in action', by supervising them in their current work for the firm.

There are also clear drawbacks, however. The decision may be made according to objective criteria, but very often will be made on subjective grounds, for example:

- choosing the eldest or favourite child regardless of ability or experience
- deliberately steering control of the business away from the direct line, e.g. putting one of their siblings or a nephew/niece in charge, as a way of thwarting their own children's ambitions or a perceived challenge to their parental authority
- choosing someone in their own image – who will carry on the business in exactly the same way as before
- choosing someone they know they will be able to control 'from beyond the grave', perhaps the most loyal or most easily influenced child.

Sir John Harvey-Jones described this as the 'laying-on of hands system' – like the pope, the family owner vests his authority in the chosen successor in a kind of sacred ritual.

Other experts have also questioned whether this approach is the most suitable. Harry Levinson explains the psychological contradictions inherent in successful entrepreneurs choosing their own successor. On the one hand, entrepreneurs want the business to thrive after they have left; on the other, they are desperate to believe that they are indispensable to the business they have created or moulded. So, while striving to make a wise choice about whom to choose, they unconsciously want to prove that no one can succeed them.

For all these reasons, experts recommend that decisions about succession should be made in conjunction with people other than the current owners. A strong independent board of directors or an experienced non-executive director can be invaluable in giving objective advice (see Section 4, Topic 9). Professional advisers are another source of help. Even family members not involved in the business could be consulted, although this latter course may hold similar dangers to the ones discussed above.

Who is the best successor?

There are complex issues at play when it comes to choosing a successor, as the first part of this topic highlighted. It is essential for the success of the business that rational decisions are made. One way of ensuring this happens is by drawing up a set of objective criteria to judge who would be most suitable. In this sense, it is no different from the selection criteria that should be used to fill any vacant position in any business.

Among the questions to be considered are the following:

- What are the candidate's values and goals?
- Is the candidate committed to the company's mission statement?

- What skills does the candidate have that qualifies them for the role?
- Does the candidate have the skills necessary to direct the company:
 - strategic planning skills
 - budgeting and financial skills
 - communication skills
 - marketing skills
 - leadership skills?
- What experience does the candidate have within the company and outside it?
- What training would be necessary to fill any skills gaps?

In a recent survey by Bournemouth University, family business managers were asked about their succession plans. Those questioned identified two areas where they had concerns about the abilities of possible successors: lack of relevant business and people management skills. A number of other skills gaps were also identified, with the highest skill gap related to accounting, followed closely by strategic skills and marketing.

A revealing statistic from the survey shows up the lack of objectivity many family businesspeople have when it comes to choosing a successor. A huge 85% of owners who had identified a successor considered that the family member chosen had the skills needed to take over the business. However, when questioned more closely about what those skills were, 75% of respondents were unable to answer whether or not the successor they had identified had specific skills.

The conclusion seems to be that owners-managers of family businesses are concerned that their successors should have relevant skills and abilities, but are willing to suspend their concerns when it comes to family members. All of this serves to stress the importance of using objective criteria when choosing a successor.

Check Point

Who are the candidates for succession to your family business? For each candidate, think about the questions below. Then, in Action plan 5, note down any priorities for action that your answers uncover. (Complete this check point only if family succession is a likely option for the future of your business.)

	Candidate 1	Candidate 2	Candidate 3
What are the candidate's values and goals?			
Is the candidate committed to the company's mission statement?			
What skills does the candidate have that qualifies them for the role?			
Does the candidate have the skills necessary to direct the company:			
– strategic planning skills			
– budgeting and financial skills			
– communication skills			
– marketing skills			
– leadership skills?			
What experience does the candidate have within the company and outside it?			
What training would be necessary to fill any skills gaps?			

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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