



## Ownership and management transition in a family business.

Historically, in a family business, transfer of ownership and management often coincided. Today, a more professional approach is often adopted. Ownership and management may transition at different stages. In some instances, while ownership may transition to family, at a management level, the transition is to those individuals most capable of running the business, be they family or non family employees. Any transition, at an ownership or management level, is a cause for concern for all stakeholders who will be conscious as to how it impacts on their position. For that reason, it needs to be managed carefully to ensure all key individuals are kept on board. Where planned logically and coherently as part of the overall strategic plan for the business, this ensures the minimum potential for disruption at what can be a difficult time.

### Management transition – preparation of successors

Where a company has a clear strategic direction, the selection of a new CEO should be based on determining who is best suited to implementing that strategy. Options can include:

- Non family managers
- Family management
- A mixed family/non family management team

The bigger a family business becomes, the more often there is either a mixed family/non family team or a 100% non family team leading the business.

It is important that the future management needs of the business are understood, as management skills and styles that were successful in the past may prove ineffective today. Too often, family businesses replicate the skills and practices of the past without examining wider changes in the external marketplace. Procedurally, you should:

- Define key leadership positions
- Identify potential leadership successors using core competencies as a framework
- Senior management should analyse and match criteria for each candidate against positions suitable for them
- Once you have identified a successor/ potential successors and assessed their level of preparedness, you need to match their existing skill sets with the required job core competencies and identify areas of development and provide the necessary support to prepare them for transition to more senior roles within the organisation.

Transparent selection criteria should be the determining factor in identifying a successor. Beyond specific job performance criteria, other behaviours or characteristics can determine an individual candidate's potential for a senior leadership role. It is unlikely that any one candidate possesses all of the ideal behaviours and characteristics and it is existing management's responsibility to prioritise what they wish to see in the next leader of the business. Considering succession candidates within the family can raise difficult issues and therefore it is best approached on an objective professional business basis, where competence is the overriding criteria. Significant consideration should be given to non family members being the next CEO of the business, where the competence of the family candidates is not comparable. On occasion, promoting a senior employee to the CEO role for a number of years, while allowing for family members to shadow them and develop over time can be beneficial in facilitating family assuming the main leadership role in the future, when they have the requisite experience to perform at the desired level. In such a situation, the non family managing director would act as a mentor to the next generation running the business until a transition within the family is possible in the future.

As part of any development plan for successors, the following should be considered:

- A mentor relationship with a senior individual within the organisation would assist in growing into a future executive leadership position
- Objectives should be set and feedback given on a timely basis
- Adequate development of required skillsets may necessitate working outside the family business for a while or taking appropriate management courses
- Knowledge transfers to the next generation should, at all times, be facilitated by hands-on experience, developing capabilities and strengths, and encouraging and promoting team development
- They may be asked to participate in on-site specialist projects within the family business
- They may be asked to participate in community projects or participation in the wider business context or industry groups
- Various self development initiatives together with formal training initiatives should be undertaken

Once a plan is designed and implemented, it is critical to monitor the development of the candidate. Their progress should be benchmarked against it with potential areas of difficulty being identified and examined. The plan can be refined or redesigned as required to meet the individual requirements of the proposed successor. The existence of a plan is paramount. As the existing leaders of the business, this should not be a matter that creeps up on you overnight. Selecting and evaluating development candidates for leadership positions within the company should be an ongoing process. Finally, there should be a clear retirement date for the existing CEO and, where required, an appropriate policy for any role they are to play in the business once they step down from their current role.

## Ownership

Two primary issues arise here, being:-

- Ownership configuration, and
- Preparing the next generation for ownership (particularly if they are not employees/management)

## Ownership configuration

The central dynamic from an ownership configuration perspective is that families are very sensitive to issues of fairness, particularly in division of assets amongst children and whether ownership of the business should solely transition to those family members actively involved in it.

- Where ownership transitions to one child, this is the least cause for disruption at a business level (different issues may arise at a family level for members who feel they have been unfairly treated).
- Alternatively, separate voting stock could be considered, the majority of it passing to one family member (being those involved in the business or viewed as most competent to run the business).
- Finally, stock can be divided equally between children. Where they are all actively employed in the business, appropriate steps need to be taken to manage any distinction between their roles as employees/management against their interest as shareholders, otherwise confusion over decision making authority and the potential for conflict and disruption is significant.

Where shares transition to passive owners, while they may be supportive of management, they will usually desire financial benefits such as dividends or other cash distributions from their ownership. With passive shareholders, an appropriate communication process should be effected to keep them informed on the company's direction and priorities. Different ownership perspectives are a source of potential conflict and appropriate governance structures should be in place to manage what are often predictable scenarios and differences of opinion.

## Preparation for ownership

Training and developing future owners, whether or not they work inside the business, is as important as training the next generation of managers and leaders. Knowledgeable, sensitive owners provide management with the support they need to move a business forward, to balance the needs of the business and the family, and find constructive ways to resolve conflicts and differences of opinion. They are aware of the family's legacy and assume that the business exemplifies the family's values. By contrast, uncaring, selfish or uneducated owners can do long-lasting damage to a business (and the wider family relationships) often not understanding what the business requires to survive and prosper, being concerned primarily about receiving dividends and supporting their own lifestyle.

The following steps should be considered in preparing the next generation for ownership:

- Talk about the business with your children from an early age. Most of the lessons about responsible ownership will come to them informally.
- If you are a good owner yourself, it will set an example for the next generation of family owners.
- Instil stewardship – convey to future shareholders that ownership means taking care of a business. It is not about power or control.
- Potential owners should know how to read financial statements and have an understanding of measurement criteria used to monitor a business's progress. Where appropriate, they may need to be educated so that they can make informed decisions and judgements.
- Owners should know the basics of the family's business, the industry it is in, the marketplace and commercial changes.
- A future owner should be aware of the family's values and how they relate to or are reflected by the business, in addition to what the business culture is and how, as owners, they can contribute to it.
- Owners should have a good understanding of the concept of strategy and what the strategy of the family business is.
- They should be aware of the principles of family business governance, including the interactions of any family council, board of directors and management team.
- They should also be aware of the trade off between business growth versus liquidity and dividends.
- They should know their legal rights and responsibilities as an owner and simultaneously should be aware of the challenges of management and difficulties of being a director in order to understand the concerns of other stakeholders in making informed decisions.

### Board/management involvement

The board of directors and management team can have a role to play in facilitating any ownership and management transition, for reasons including:

- Their ability to input into the strategy of the business to ensure there is a guiding template to maintain consistency and uniformity of vision throughout the transition process.
- Board members and senior management may be used as a sounding board to discuss key issues around transition of ownership or management with the founder/existing owners.
- From a management transition perspective, they may be involved in selecting successors from the pool of candidates, in implementing and monitoring management talent assessment, and in devising a management grooming plan.
- The board of directors can provide an independent perspective in respect of any management development process selection to ensure it is not tainted by family bias.
- Existing senior management or non executive directors can serve as mentors for succession candidates.
- At an ownership level, many of the educational initiatives required to facilitate family members being good owners can be effected with the assistance of either existing members of management, members of the board or outside advisers.

The greater the level of preparation by both the existing owners and the existing management team in devoting time and resources to the development of the future ownership and management team, the greater likelihood of successful transition at both an ownership and management level. Ultimately, this should all be part of a comprehensive governance framework for the business.

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