

Leadership and succession planning

Achieving effective succession is a key task for many of today's family business leaders according to Teresa McColgan, Tax Partner at PwC Ireland.

Ms McColgan offers her insight on what to expect when planning for succession.



One of the hallmarks of good leadership is planning for succession. If a business is inextricably linked with one key individual, and has not been prepared for survival beyond that person's involvement, it's doomed. True leaders recognise that they need a structure that ensures that the business will continue to flourish after their departure. While this is true in any business, it's particularly important for privately owned businesses, where succession can refer to management change or ownership change, or both. Add the family dimension, and strong leadership is really needed to ensure that the business continues to succeed for generations to come.

Ideally, a leader will recognise his or her responsibility for succession planning, and see it as another challenge where their performance will demonstrate personal effectiveness and value to the business. Unfortunately, many business leaders avoid the issue as they consider it tantamount to flagging that they will no longer be relevant. On the contrary, as proper succession planning is an ongoing process, which should start long before the changes envisaged are actually needed, putting planning structures in place is an indication of strength, and indeed is likely to lead to other opportunities for the business leader beyond their current role.

With 41% of family businesses expected to transfer to the next generation within the next five years, it's time for many people to focus on this aspect of leadership.

So how should our current leaders go about this process, and what do they need to think about?

Planning for the plan

Proper planning is the key, and as with any plan that involves thinking about:

- *Who should be involved in the planning process?*
 - The current leader?
 - The board?
 - The next generation?
 - The wider family?
- *What is the immediate need and what are the medium to longer term issues and objectives?*
 - A mechanism for future leadership changes?
 - Selection of an interim leader?
 - Identification of the successor?

- Ensuring financial security of current leader so that the transition can happen at the right time?
- Share ownership changes? And if so,
 - Transfers of ownership of existing shares?
 - Fresh share issues?
 - Growth shares?
- Diversity of ownership?
 - Family only?
 - Family working in the business?
 - Non-family ownership allowed?
- Financing implications?
- Tax implications?
- Timing?
- *What resources are needed?*
 - Funding to buy out those exiting?
 - External advisers?
 - Coaching support?
- *What are the potential problem areas, barriers and limiting factors?*
- *What strategies or potential solutions are there to deal with these factors?*
- *How might the stated objectives be achieved – what are the options?*
- *What is the decision-making process?*
- *What is the desired timeframe for agreeing the plan and for its implementation?*

This is not an exhaustive list but it should help those involved to have a structure, and to focus on a range of achievable options. There may not be a perfect solution; the best answer may simply be the least worst option, but if it is the best available in the circumstances, it is important that agreement is reached. When the plan has been debated, challenged and agreed, it must be documented so that there is a clear record of what has been agreed and who is responsible for implementation, so that it can be communicated to the wider group of stakeholders, and performance against the plan measured.

Useful starting point

A really useful starting point for these discussions is an agreed statement of family values. Ideally that gets broadened out to a wider family constitution, shareholders' agreement or other agreed framework of rules covering the relevant issues such as who can own shares, who can work in the business and what prequalification is required, valuation basis for share transfers, non-executive director roles, decision making procedures, conflict resolution processes etc. External support may be needed to ensure that the framework is complete and fit for purpose. Where such a framework is in place, it's a great reference point when tricky issues arise.

Going deeper

There are many potential angles we might cover, but let's focus on the planned transition of the role of family business executive leader, currently occupied by Chris, aged 55, who plans to retire from active management at age 60. Let's assume that, by reference to the terms of the family constitution, due process for identifying potential successors has been followed, and the likely candidate is Chris's child, Alex, who has been working in the business for a few years and is interested in the role but is not yet ready to take it on.

In this article, we'll look at some of the issues that Chris needs to consider at a personal level, as well as how Chris can best support Alex in making the transition to leadership.

Really important issues that also need to be considered include:

- the financial health and viability of the business itself;
- business strategy;
- the need to protect, diversify and safeguard family and business assets, and;
- the planning required to ensure that any shareholding changes do not give rise to unnecessary and overly onerous tax liabilities.

We will look at these issues in coming e-zines, but now let's get back to Chris and Alex.

Current leader's future personal financial health and role

While Chris's key focus, from a business continuity perspective, must relate to helping Alex to make the transition, she also needs to look after herself to ensure that she is able to move on. That includes ensuring that she is financially secure and not continuing to depend on the business for financial rewards beyond what is appropriate for her future role with it, if any.

Pension planning and share disposals could be tax effective funding options, if there is sufficient cash in the business and sufficient time for appropriate implementation. The earlier this is considered, the more likely that tax efficient solutions can be identified, financed and achieved. For example, "retirement relief" may be available to exempt Chris from any capital gains tax liability arising on the sale of shares undertaken before she reaches the age of 66 (from age 66 on, the relief is capped and the potential exemption is limited to €3m).

While her ultimate objective is to ensure that her son is equipped to take over from her, it does not mean that there will no longer be a role for Chris within the business. In many family businesses, especially those where the current leader displays an understanding of the need to plan for successful transition at executive level, there is a subsequent role at governance level to provide support to management, and to ensure that the rules of engagement encapsulated in the family constitution continue to represent family values and are observed in practice. As indicated above, if Chris recognises and deals properly with her responsibility for enabling Alex to succeed her, and is able to step away from the executive role and let him get on with it, he is much more likely to value her advice and recognise the support she can provide at a governance level. Dealing professionally with these issues in her own family business may also lead to opportunities for Chris to provide nonexecutive support to other businesses who do not have the internal resources to deal with these and other strategic business issues.

Helping the next generation make the transition to leadership

Having planned for her own financial security independent of the business, how can Chris help her son to prepare for his future role as her successor, and agree her own future role, if any?

As outlined in [PwC's 2016 Irish Family Business Survey Report](#), there are five key things the current generation can do to give the next generation the best chance of succeeding:

- Plan ahead
- Make it an opportunity, not a burden
- Give them the chance to build something of their own
- Understand where and when to let go, and
- Address family governance.

➤ *Plan ahead*

We've already looked at the importance of Chris planning ahead in relation to her own position, both financial and in relation to her future role, if any, with the business, so that she will be prepared to vacate her current role in favour of Alex. But of course it is equally, if not more, important that she helps Alex to prepare for his future position. What does the role involve and what are the skills and experience required? Where can he acquire these skills and experience? Should he work outside the business/in another country/industry? Does he need a mentor outside the business? Are there relevant training courses or programmes that he should follow, or networks that he should join? Is Chris prepared to give Alex open and honest feedback in a constructive way so that he can learn from her while bringing his own style and skills to the job?

➤ *Make it an opportunity, not a burden*

We've assumed that Alex has agreed to take on the role, but that may not be a safe assumption. It's clear from [*Great expectations – the next generation of family business leaders*](#), PwC's 2016 survey of next generation family business leaders (NextGens), that while NextGens are generally very interested and excited about becoming involved in their family businesses, they are much more concerned than previous generations about making a meaningful contribution by utilising their skills in ways that are relevant to the business. They are also much more open than previous generations to bringing in non-family professionals to fill any skills gaps identified.

It will be important for Chris to spend time with Alex to understand what he believes he can contribute to the business and to ensure that he sees it as something that he wants to do, rather than a duty.

➤ *Give them the chance to build something of their own*

Almost half of NextGens surveyed would like to set up their own ventures to run alongside the main family business. If Alex has any such ideas, it would be worthwhile for Chris to consider this as a way of giving him some initial responsibility as well as an opportunity for him to develop some of the skills, knowledge, experience and networks mentioned earlier. And depending on the project, in a time of rapid technological change and digital transformation, the venture could lead to significant developments for the future of the main business.

➤ *Understand where and when to let go*

We've already mentioned this above in the context of Chris preparing for her own transition out of her current role. While almost all of the NextGens surveyed indicated that they would welcome continued support, many also identified the potential challenges associated with the transition, so it will be important for both Chris and Alex to manage the process carefully.

➤ *Address family governance*

We also mentioned this earlier as a role that Chris might take on as she is succeeded in the leadership role by Alex. The amount of work required will depend on the existing governance structures.

Conclusion

The next generation of business leaders will be operating in a very different environment to that of their parents – new ways of doing business, globalisation, demographic change and digitalisation are making that clear. While much of this may be new territory for existing family business leaders, there is a lot that they can do to help safeguard the family business and assets created over the generations, while preparing these new leaders for their future roles and supporting them afterwards. Indeed, achieving effective succession is one of the key jobs for, and will define the legacy of, many of today's family business leaders.