



**SUFABU**

SUCCESSION IN FAMILY BUSINESSES

# FAMILY BUSINESS SUCCESSION STORIES

## SOLE OWNERSHIP

2

## INTRODUCTION TO THE THEME



When a family business is passed down to a sole owner there are both advantages and disadvantages.

By having only one owner, the business becomes lean and effective, similar to a start-up. Since there is only one decision maker, decisions can be made quickly and pivoting to new opportunities is made easier. The company also has the vision and passion of only one person, so the company's future can be direct and specific.

There are also disadvantages to only having one owner. If the succeeding generation do not agree on who the one owner should be, the siblings who are not chosen can become disgruntled, causing friction within the family. The criteria for choosing the sole owner should be very thorough as well, since if the wrong sole owner is chosen, the whole business could perish.

For farms, there are in many countries a tradition to only pass on the farm to one family member in the next generation. Concerns like keeping the land together or that the farm can only support livelihood for one family can be important considerations in addition to tradition. Similar traditions and considerations can play a factor in business owning families.

The acceptance of sole owner succession from the broader family is more likely if all the parties involved are aware of the succession plan, understand the criteria to be chosen, and gain work experience within the company to find out if they would make a good fit or not. If possible, the non-owners in the succeeding generation should receive alternative compensation, so as to not feel underappreciated for not being chosen.

Sole ownership can be regarded as unfair with wealth and privileges concentrated with one owner. On the other side, the sole owner is also alone with the responsibility to continue the family business tradition and legacy while other family members can enjoy the freedom to pursue a career of their interest.

To be a sole owner can be a large burden and workload for one person, depending on the size of the business, complexity, market, number of employees etc.

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## 2.1 Succession from 3<sup>rd</sup> to 4<sup>th</sup> generation in Banti Ruffo Company

### CATEGORIZATION



Nationality:	<b>Italy</b>	Succession option:	<b>Family succession</b>
Company size headcount:	<b>&lt;10</b>	Company size turnover:	<b>&lt;€2m</b>
Generation:	<b>3<sup>rd</sup> to 4<sup>th</sup> generation</b>	Industry:	<b>Construction</b>
Interviewed:	<b>4<sup>th</sup> generation</b>	Anonymous:	<b>No</b>

### SUCCESSION STORY



The Banti Ruffo Company is a fourth-generation family business specializing in the restoration of surfaces and building maintenance. Founded in Pisa in 1918 by Ruffo Banti, Master Painter and Decorator, the Banti Company has participated in numerous monumental restoration projects, as well as being a leader in the internal and external Liberty-style finishes of patrician houses. The business continued with the entry into the company of his son Aurelio Guido who at first maintained the operational characteristics of his father's management, and then diversified them with the introduction of his son Ruffo. To adapt to the reconstruction needs of the 1950s, Ruffo introduced new advanced application techniques suitable for the maintenance and aesthetic enhancement of the surfaces involved in the intervention. The relationships woven over time with large industries and with important names in shipbuilding contribute year after year to increasing the experience of the Banti Ruffo company in industrial painting cycles. Today the company is led by Fabio, Ruffo's son, whom we interviewed to have him tell us the centennial story of his family business.

The family successions preceding Fabio's were mainly dictated by situations of need. Ruffo's childhood, Fabio's father, was marked by the tragic event of the Second World War and by periods of hunger and misery that led him, at the age of ten, to work in the family business after school. During the years of reconstruction, the Banti Company grew significantly thanks to many work commissions. A growth that also involved considerable effort and sacrifices, starting with having to work seven days a week to meet delivery expectations. Unlike his father, the Fabio's succession was distinctly different: born into a better age, in a family that lacked for nothing, Fabio had the opportunity to study, and in 1990 graduated with a master's degree in Economics and Commerce from the University of Pisa. Whilst studying, Fabio also continued working for the family business, which he began at the age of fifteen. After graduating, Fabio started working in the company as a family worker. Joining the company happened naturally: despite the numerous jobs offers that arrived immediately after graduation, Fabio had no doubts about choosing to work in the family business. There were two reasons for this choice: on the one hand the sentimentality of carrying on the family business; on the other, the opportunities and freedom of being an entrepreneur.

His father Ruffo never imposed a future in the family business on Fabio and who, once he joined the company, left him free to take chances and make changes to the business. In 2012, under his leadership, the Banti firm became a limited liability company, with Fabio assuming the role of sole director. In addition to the family business, Fabio has other work experiences that are useful for his personal and professional growth.



Specifically, Fabio is the president of Confartigianato Imprese Toscana and Confartigianato Imprese Pisa, the trade association of crafts and small and medium-sized enterprises, and of Artigiancassa, a bank of the BNP Paribas Group dedicated to the world of craftsmanship and SMEs.

Today, Fabio has two children aged 19 and 23, both are currently at university. Following his father's example, Fabio does not exert any pressure on his children regarding the future management of the family business. In the event that they decide to not join the family business, Fabio would respect their decision, despite the end of a centennial of entrepreneurial activity. In Fabio's vision, in fact, it is necessary to be totally committed to become an entrepreneur. A company, especially if it is a family one, is dependent on who leads it and there must be a strong passion for the business if you haven't learned all the skills necessary to succeed yet.

*"The freedom that I had from my father was not dictated by an act of generosity but of trust and lies in the fact of glimpsing the advantages that I could have brought to the company. If one of my children decides to join the company, he should be aware of the price he will have to pay as I and my predecessors paid for it. Family aspects must be put aside while, on the other hand, it is necessary to bring value to the company. If I had not been suitable in my father's eyes, I would not have been able to do what I have done up to now, I would not have enjoyed such autonomy."*

– Fabio Banti, 4<sup>th</sup> generation owner



The Banti family

## REFLECTION QUESTIONS



- Are you aware of your choices as a potential successor?
- Have you considered your risk of failure?
- What opportunities can you identify in your surroundings?
- Are you willing to make the sacrifices that can be necessary if you take over the family business?

## 2.2 Succession from 1<sup>st</sup> to 2<sup>nd</sup> generation in El Veedor

### CATEGORIZATION



Nationality:	<b>Spain</b>	Succession option:	<b>Family succession</b>
Company size headcount:	<b>&lt;50</b>	Company size turnover:	<b>&lt;€2m</b>
Generation:	<b>1<sup>st</sup> to 2<sup>nd</sup> generation</b>	Industry:	<b>Accommodation and Food Service Activities</b>
Interviewed:	<b>2<sup>nd</sup> generation</b>	Anonymous:	<b>No</b>

### SUCCESSION STORY



The family business El Veedor (restaurant) and El Ultramarino (local grocery store) was started in 1975 by Juan's father. The story begins in 1975 when Juan's father, while he was living in a small village and destined to be a goat header, realized he wanted to do something different in life. He left his village and moved to Cadiz – a small picturesque coastal town on the Atlantic coast of Andalucía. He bought an old, almost in ruins building and started a venta (a small local shop and restaurant in Andalucía). The next move was to bring innovation and diversity into the food made available to the locals. For this he started introducing cured pork products, a totally new thing that time, along with cheese, and wines. With time, it eventually turned out being not only a successful but also an iconic business in Cadiz attracting citizens from all corners.

The building where El Veedor is located is over 200 years old and while it looks modern from the outside nowadays you would still be enchanted after stepping into this historical site. As well as the building, some particulars of the history of the restaurant are also noteworthy of highlight. Back then, woman would shop at the grocery store and men would get a drink, or several, in the bar which was then divided only by a glass door.



A couple were not permitted to shop and attend the bar together as back then it was not considered proper for a woman to enter a bar for a drink. There were two separate doors to El Veedor that were not visible to those who entered. The men couldn't see their wives in the store and the woman could not see their husbands drinking. It was chauvinistic in its origins.

Juan's father was the sole owner of the business until 2002 when his only son, Juan, finished his degree and expressed interest in joining the family business. Juan's ambitions were previously not really pointing to the family business, his professional dream was to become a forensic scientist and work in police investigation. However, he eventually took the decision to choose his father's path as he possessed a strong will to not lose the family business after all the hard work done by his father.



At the moment, Juan is the only owner and manager of the company. His sister never showed interest in the family business and dedicated herself to the world of television. The succession happened when Juan's father took a decision to retire and pass the business to the son.

Difficulties? A lot of difficulties were faced when doing the transition. Mostly in terms of inter-generational shock that often results when people from different times work together. The father had been through war, hunger, hardship, and the fact that Juan wasn't raised by him – had its impact on the succession process. The first setback occurred when both realized they saw the company's future in different ways – the father was more into keeping things as they were while Juan was more interested in changing and innovating working process and conditions for the company's workers. The story of succession began when Juan opened his own restaurant right in front his father's restaurant. That was done on mutual accord and there was agreement to keep these two-business distinct from each other. They both understood clearly that the two establishments would have their own distinct clients and working policies. Opening his own restaurant in close proximity to his father's was Juan's approach to entering into the family business.

When his father eventually retired, in order to have enough time to dedicate to both businesses, Juan had to find an external manager for his own restaurant. At this time, he was able to bring in a chef with a Michelin star named Mauro Barreiro. With this he was able to focus on his father's business.

The transition between father and son took about 4-5 years to complete and was done slowly and gradually. There was no established succession plan – it's been a natural process with no external assistance but simple financial moves and required notary and bank changes. The intention was not to rush things and completed it overnight so that the El Vedor workers would have confidence in the successor. Although being the only manager of El Vedor at the moment, *"my father would always remain the owner of the family business with the right to change or unchange things and he would always follow him in doing so"*, says Juan, the 2<sup>nd</sup> generation owner.

Regarding the situation with the next generation, it is complicated. Neither Juan or his sister has descendants. Yet, Juan mentions that in case of having children, he would let the succession be carried out in the same way as it was with his father. He is convinced that in order to run a family business the children would have to study hospitality management and business administration, and to have "cariño" (strong affection in Spanish) for the family business.

The future of the family business El Vedor is uncertain. Juan expressively pointed out both his father and him would prefer not to leave the business in the hands of someone outside the family. What will happen in the future? If things remain, Juan will continue to grow the business until he finds a suitable person to sell the restaurant to, but only the time will tell.

Reflections from Juan on how to pass through a succession process: *"First, be humble. Humility, education, self-respect, self-confidence is fundamental. You have to have many values because you are building upon something from someone who has done something important and you need to realize that, if want to or not, it will not be the same. You need to learn to do things differently, not copy, have your own identity and not be a copier."*



## REFLECTION QUESTIONS

- How can you further build on what your ancestors have established?



## 2.3 Succession from grandfather to grandson at GONDAN

### CATEGORIZATION



Nationality:	<b>Spain</b>	Succession option:	<b>Family succession</b>
Company size headcount:	<b>&lt;250</b>	Company size turnover:	<b>&gt;€50m</b>
Generation:	<b>2<sup>nd</sup> to 4<sup>th</sup> generation</b>	Industry:	<b>Manufacturing</b>
Interviewed:	<b>4<sup>th</sup> generation</b>	Anonymous:	<b>No</b>

### SUCCESSION STORY



For four generations, the family of the current president, Álvaro Platero Díaz, has dedicated himself to shipbuilding. The late nineteenth century found Francisco Díaz Fernández already building small boats for inshore fishing when his son, Francisco Díaz Martínez, began building wooden boats on the beach where the current shipyards are located today.

In 1925, Astilleros Gondán was founded. The shipbuilding at Astilleros Gondán includes the construction of many different types of ships, fishing boats, platform supply vessels and emergency response and rescue vessels for oil platforms, and support vessels for the offshore wind industry. Álvaro represents the 4<sup>th</sup> generation of shipbuilders and the 3<sup>rd</sup> generation of the shipyard family business.

His case is a curious one of succession in family businesses. Francisco's passing in 1995 at the age of 93 brought about big changes in the company beginning a new phase in the history of Gancedo

Unlike the traditional approach of passing the business "down from father to son", Alvaro acquired the company straight from his grandfather, without passing through the intermediate generation of his parents. This decision was made by his grandfather who, by his account, had problems with some of his children who had been working at the shipyard at the time.

Over the years Alvaro bought up the shares from his cousins and two uncles - essentially everyone except his mother. When his mother passed away, she left a portion of her shares to Alvaro's only sister. Currently, Alvaro is the sole and only executive of the family business with 93% ownership in the shipyard and the remaining 7% belong to his sister.



*"Succession in my case was not normal, but it was an extraordinary thing". My grandfather's fundamental objective was to maintain and preserve his life's work, which was the shipyard, to preserve the integrity and unity of the company, and he chose me as the solution to continue the family business."*

— Álvaro Platero Díaz, 4<sup>th</sup> generation owner



Over the grandfather's time Alvaro specified that he did not know about the existence of family protocols and there were none. The only external help they had was only notary in nature and that of a tax advisory. During the last three years of Francisco's life a plan to organize the succession was established between him and Álvaro. Their idea wasn't met with enthusiasm by the rest of the family. Part of the family did not understand Francisco's decision to keep the company together instead of dividing it in parts among the sons but instead choose one person to run it and that person being his grandson.

This led to big problems with the family, there was estrangement, anger and it took a few years to get everyone back on speaking terms. Álvaro put it: *"When they saw that they had no future with me as I was already a director, they decided to sell their shares to me or exchange them for other types of assets."*

To this day all executive and decision-making responsibility still lies with Álvaro as a general director and the shareholders include only himself and his sister. The communication between them is rather good. There is also a board of directors whose role is more of a consultancy and advisory without executive power.

In terms of a succession plan for the next generation, Álvaro mentions there is no such family protocol, though he has thought about it many times, and has done some research. His approach at the moment is to give it some time to see which of his children have interest in the business. So far it is clear that his son will work in the shipyard, as he has already been integrated in the company while working there during summers and attending important business meetings. One thing that he has very clear is that all his children will be shareholders of the company however whether they will or not become executives, will depend on their professional capacity.

Reflections from Álvaro on how to handle succession: *"You need to make tough decisions when it comes to selecting in which hands you are going to leave the family business. It is important that whoever you choose would have sufficient power to do things, as an executive of the company. If there is a clear understanding that your children do not have this executive capacity, it is better to make them shareholders and instead to create an independent management team controlled by the shareholders."*



Alvaro at the shipyard with his sister and his children





## 2.4 Succession from 1<sup>st</sup> to 2<sup>nd</sup> generation in H2O

### CATEGORIZATION



Nationality:	<b>UK</b>	Succession option:	<b>Family succession</b>
Company size headcount:	<b>&lt;10</b>	Company size turnover:	<b>&lt;€2m</b>
Generation:	<b>1<sup>st</sup> to 2<sup>nd</sup> generation</b>	Industry:	<b>Electricity, Gas, Steam and Air Conditioning Supply</b>
Interviewed:	<b>2<sup>nd</sup> generation</b>	Anonymous:	<b>No</b>

### SUCCESSION STORY



H2O was founded in 1986 by Adam Cargill in Arbroath, Scotland. The business provided plumbing services to the local area and soon built up a healthy range of repeat customers, along with contracts for local councils and housing organisations. The founder built up the business over the years whilst his children went through school.

There were two children in the family; a boy and a girl. As they got older, it became clear that the first-choice career paths of the children were not to follow in the family business. The son looked to join the police whilst the daughter started a very successful professional singing career. However, life happens, and the son Mark, decided to train as an electrician.

After working for a few companies as an electrician, he found similar jobs each and every day and started looking for a new challenge. It was at this point that his father asked him to join the family business, while also providing more plumbing training. This was not a route planned earlier in the business's history; however, it did allow the business to expand their services to both private customers and commercial clients.

As Mark settled into the business, there started to appear an expectation that he would take over the business eventually, when his father decided to retire. He had the trade skills and expertise to cover all jobs that the business was involved in however an incident occurred which showed a substantial, and previously not-considered skills gap in the business structure.

Unfortunately, Adam the founder experienced a health scare and Mark was thrown in to the deep end in order to cover both the management and business side whilst his father recuperated. This was a key learning opportunity and set him up for the future, however at the time there was definitely a feeling of sink-or-swim and in hindsight, some support during this period on day-to-day business requirements such as pricing, creating estimates and invoicing would have been appreciated.



As Mark took on more responsibility within the business, it became clear to the family that he would take over from his father at some point. This was slowly sped up due to the ill health of the founder until we reach the time of writing (September 2020) where Mark has assumed almost all the leadership of the business, while his father is reducing his role more and more. Adam is still a partner in the business at this point in time, although both parties expect him to remove himself completely from the business over the coming months.

Whilst Mark is now comfortable with the administrative side of the business, extra resources have been brought in with Mark's wife now providing administration support and guidance.

H2O have managed to start and near complete a succession process with limited planning and with few issues. This is mainly down to the simple nature of the family business; one founder and one child wanting to follow in the father's footsteps. It also shows that for smaller family businesses, the process can be relatively stress free and not require the involvement of specialised professionals for many months and years beforehand.



## REFLECTION QUESTIONS



- What can you as a successor bring to the business grow the business or «make it your own»?

## 2.5 Succession from 2<sup>nd</sup> to 3<sup>rd</sup> generation in Millars

### CATEGORIZATION



Nationality:	<b>UK</b>	Succession option:	<b>Family succession</b>
Company size headcount:	<b>&lt;10</b>	Company size turnover:	<b>&lt;€2m</b>
Generation:	<b>2<sup>nd</sup> to 3<sup>rd</sup> generation</b>	Industry:	<b>Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles Supply</b>
Interviewed:	<b>3<sup>rd</sup> generation</b>	Anonymous:	<b>No</b>

### SUCCESSION STORY



Millars was founded in 1903 in Arbroath as a provider of blazers and other items by AK Adamson. The grandfather of the current owner started off within the business as a delivery boy, carrying brown paper parcels of goods to customers using their bicycle and in a stereotypical story of working themselves up, they eventually became a part owner within the business with a 50% shareholding. After the founder exited the company, the grandfather took over and started to expand the business, moving more into the area of gents outfitting.

The current owners father was recommended to learn a trade outside the family business and therefore served their time working at Cairds, a large department store in the city of Dundee where they trained as a tailor and eventually brought those skills into the family business. At this point in time, the owner (grandfather) had two children, one of which had no interest in pursuing the family business and therefore the transfer from one generation to the other was pretty simplistic and took place without any issues.

The second-generation owner expanded the business further and started bringing in European influences to the products and services being provided. Millars became a true gentlemen's outfitters and through various purchases, expanded their business into Broughty Ferry, a high-class suburb of the city of Dundee, and the location where the areas 'Jute Baron's' set up their vast homes.

Two children again were available for generational succession, however before plans had been put into place, the owner suffered health issues which pushed the sons into the forefront. One son had little interest in taking over the family business, but the other son – the current owner picked up the reigns and carried on the business moving it into the third generation.

As the succession was rather rushed due to the ill health of the previous owner, the new owner hadn't had much of a chance to integrate themselves into the business, therefore they attended the local college in order to attain a business qualification. They also found lots of support from others in the sector – indeed, the current owner suggested that the assistance and support they found from others in the sector was very important in terms of the successful transfer, the sector is quite small and tends to support each other during times of crisis or distress.



Again, as one of the siblings didn't have the same level of interest in the family business, the process of succession was simple and didn't involve any conflict. Indeed, the current owner has numerous other businesses with his brother – just not the family business!

Currently the business is experiencing the problems surrounding the Covid-19 pandemic like many other independent retailers, however the current owner has brought his spouse in as a shareholder (who has also opened a separate retail store aimed at a different market), and there are some hopes that the current owner's son, who is still very young, may well continue the family business and move it into the fourth generation.



## REFLECTION QUESTIONS



- How to get your next generation interested in the family business?

## 2.6 Succession from 1<sup>st</sup> to 2<sup>nd</sup> generation in Alex Spink and Sons

### CATEGORIZATION



Nationality:	<b>UK</b>	Succession option:	<b>Family succession</b>
Company size headcount:	<b>&lt;10</b>	Company size turnover:	<b>&lt;€2m</b>
Generation:	<b>1<sup>st</sup> to 2<sup>nd</sup> generation</b>	Industry:	<b>Agriculture, Forestry and Fishing</b>
Interviewed:	<b>2<sup>nd</sup> generation</b>	Anonymous:	<b>No</b>

### SUCCESSION STORY



Alex Spink & Sons is a family business established in 1977 by Alex and Mary Spink as well as their sons Alex, Norman and Andrew. Based in Arbroath, the largest town in Angus, Scotland, the local independent fishmonger is currently managed by second generation Alex Spink. The business specialises in making Arbroath smokies in the traditional way over an oak-wood fire.

Arbroath smokie is a type of smoked haddock and a local delicacy, originated in Auchmithie, a small fishing village a few miles north of Arbroath since the late 1800s. Traditionally, small batches of fish were smoked using halved barrels covered by hessian sacks, with the fire heating beneath the fish inside the barrel. At the start of the 20th century, Auchmithie fisher-folk moved to Arbroath, and the process soon became known as the Arbroath Smokie. In 2004, the European Commission recognised and registered the designation "Arbroath smokies" as a Protected Geographical Indication under the EU's Protected Food Name Scheme.

Alex Spink, the current owner fully took over the business over a year ago from his father Alex Snr and uncles. Before this, Alex has been helping on the day-to-day operation since he was 13 years old. Despite retiring from the business, Alex Snr still provide support to the business such as managing customer enquiries.

Alex Spink & Sons takes in fresh whole fish and their skilled filleters fillet and prepared the fish ready for smoking. The business is also focussed on supplying fresh fish to the wholesale market such as restaurants and hotels, door-to-door fish deliveries, as well as to two of their franchise shops in Blairgowrie and Dundee.

Prior to the succession, Alex's father encouraged him to take over the business. As a business owner, at times it can be demanding. However, Alex has received consistent support from his father. Alex Snr empowers Alex to make business decision and guides him when required. This openness provided a good foundation for Alex to take over the business smoothly. With over 40 years' experience working in this industry, Alex Snr's knowledge and experience are invaluable to Alex and the business.

Business decisions are made between Alex and a business partner, who is not a family member. The turnover of staff has been stable over the past 15 years. Alex has not introduced major changes to the business, nonetheless, he hopes to grow and expand the business to cater for the time changes, including developing the company's website and online sales.

Family business transitions are often difficult, Alex stated that a supportive family has enabled him to make his own decision whilst being given direction when needed. This has been an important element to his business succession. With this positive experience, Alex would encourage his future generation to take over the business and work in the industry.



## REFLECTION QUESTIONS



- How can you support your family members in succession decisions?



## 2.7 Succession from 2<sup>nd</sup> to 3<sup>rd</sup> generation

### CATEGORIZATION



Nationality:	<b>Norway</b>	Succession option:	<b>External management</b>
Company size headcount:	<b>&lt;250</b>	Company size turnover:	<b>&lt;€50m</b>
Generation:	<b>2<sup>nd</sup> to 3<sup>rd</sup> generation</b>	Industry:	<b>Manufacturing</b>
Interviewed:	<b>3<sup>rd</sup> generation</b>	Anonymous:	<b>Yes</b>

### SUCCESSION STORY



For this case we interviewed a third-generation owner, that has been the sole owner of his family business for almost 20 years. The family has had a tradition of sole ownership throughout three generations, with the most active sibling buying out other family members to achieve sole ownership of the operational company.

The company was founded in 1946, by an active entrepreneur. In time he decided that each of his three children would inherit equally, 1/3 of the company each. After several years his son, the second oldest, who was the most active in the company, bought out each of his siblings, and became the sole owner. Although this caused some friction and challenges within the family dynamic, with some siblings expressing regret about selling, the company thrived and grew.

The second-generation owner believed it was important that the business would be passed down to an active owner, someone who would be actively involved and interested in the business. He spoke openly about this at home and involved his two children in the business through summer jobs and visits to the office. As his children grew older, it became evident that his youngest child was more interested in the business. As the son completed his education he was involved and kept informed on the family business, reading weekly memos and updated company overviews. It became clear that the son would become the heir to the operational company, and the daughter would be compensated from other investments.

The family was in a fortunate position because the company had been profitable throughout the years, enabling them to build up investments outside of the company. Hence, when the son inherited 100% of the industrial company, he had the ability to pay out his sister through excess liquidity.

The son returned to Norway at the age of 25, after studying abroad. At this point his father gave him the challenge to head a business area with negative result. The father proposed that if the son demonstrated that he could turn around the business area to a positive result within five years he had proven himself qualified to become the CEO of the company. The father would then change roles to chair of the board for the following five year before retiring. However, after three years in the role, where he was doing well, there was a sudden shift. His father fell ill and in the space of two weeks the son became the active third generation owner. He also took over as CEO immediately, and his father left the business altogether. Although left with a huge responsibility, as he was young and the change was sudden, he took over a robust company with the full support of the leadership team and therefore the succession was relatively smooth.

Today the third-generation owner has stepped down from his position as CEO and is currently fulfilling the role as chairman of the board, focusing on long term innovation and production projects. He spent a lot of time recruiting a CEO to replace him. He has also established an advisory board in addition to the company board, to support him as an owner. Despite his father passing on the baton at a relatively young age, he is kept up to date and is always available for business discussions on his son's request.

Due to strong communication within the family, they have all continued to have strong relationships, despite the siblings not being equal owners. The sister's priority has been to keep the family united, rather than to inherit equal ownership to the operational company. Separate from the operational business, the family own an investment company together, where the two members of the third generation sit together with their father.

The third-generation owner wants to disprove prejudice that comes from proverbs like "from shirtsleeves to shirtsleeves in three generations". To counter this paradigm, it is crucial to remain innovative in each generation and adapt to market changes. According to the third-generation owner that we interviewed, being a sole owner enables the company to remain lean and pivot quickly.

Even though it is a traditional industrial company, the business culture is reminiscent of a start-up, where decisions on new ideas can be made quickly without too many formalities. This is particularly important in the technical industry where the market changes quickly. He believes that having too many ownership interests, that is often the case in the third generation, would slow down the decision-making process and make it difficult to run the company. The current owner only has one son, so he does not have to make the difficult decision of who is best suited to carry the family company forward. Even though he will let his son choose his own path, he sees the importance of making him aware of what they own and keep him informed on what the family company entails.

***"Being a sole owner enables the company to act as a start-up."***

— 3<sup>rd</sup> generation owner



## REFLECTION QUESTIONS



- What is a fair compensation for siblings that don't inherit shares in the company?

## LEARNING POINTS



### **Education both formal and informal is important**

A solid education is necessary today. Introducing the successor to the business slowly and over a longer period of time will help create a smooth succession. For smaller businesses, ensuring that the next generation are fully aware all sides of the company could be highly beneficial if something unexpected happens to the current owner or leader. Communication between the incumbent and the successor will provide invaluable knowledge and learning opportunities. In story 2.5 about Millars the 2<sup>nd</sup> generation had found it beneficial to Learn outside the family business. Learning their trade in a large department store allowed the business to transition and expand into new outfitting and tailoring services.

### **Find your own management style and be aware of resistance in the organisation for change and innovation**

In story 2.1 Fabio experience an obstacle relating to entry into the company was that of modulating a relationship with the company's employees that was "authoritative, but not authoritarian". This is a very important aspect, especially when coming from a university education. A relationship also influenced by the changes and innovations that Fabio has introduced into the company and that he strongly wanted to pass on to his employees.

### **If possible, build up capital to be able to compensate the non-owners in the next generation**

If family members who are not chosen to be the sole successor are unhappy with this, the compensation will soften the blow and help maintain the familial relationship.

### **Family comes first**

Do not let money or business affect familial relationships. Although a sole ownership can put pressure on family relationships it is important to maintain strong relationships. One example is to include family members that are no longer owners in business events like opening of a new location, launching of a new product or anniversaries.

### **Succession planning**

Can help identify the best sole owner and create a smooth path to succession.

### **Continuity through a succession**

Mark, the successor in story 2.4, had worked with the business clients prior to taking leadership of the business, the clients did not have a new person to deal with during negotiations. Continuity was achieved through the successor being involved well before any transition. This also leads to the continuation of "goodwill" which some businesses appreciated within their balance sheets!

### **Have multiple discussions with the successor**

It is important that children family members who want to join the company ask themselves how willing they are to "get their hands dirty"; how to carry on the company not only in managerial but also in operational terms; how to carry on their ideas, even if they are at odds with those of their predecessors.

### **Network**

For certain smaller sectors, there may be lots of support available from actual competitors or industry associations to help with a transaction. The business and family networks can be beneficial for discussion and reflections both for incumbent and successor. The effects of Goodwill on a succession should not be underestimated.





## ACTIONS TO CONSIDER



### Have a full contingency plan

Develop a contingency plan to cover unexpected events before such events occur will be beneficial to a business. It would also help reduce any business interruption should anything other than the plan occur.

### Excess liquidity

If possible, use excess liquidity to build up investments outside of the family business, so that there are funds available to buy out other family members if necessary. An alternative is to make a down payment agreement with the family members that have given up their ownership for a set number of years. It could be useful to make it a condition that if the company is in need of liquidity, the family member that was bought out is obliged to help out by reinvesting some liquidity. This condition could be set for a fixed number of years.

### Competence development plan

The incumbent generation must dare to give the successors responsibilities, young age should not be a limiting factor. A successor that is interested in obtaining ownership or a key position in the family business, should show interest and stay informed. It could be useful to gain work experience in various departments of the company during vacations and stay updated on new products and services and market developments. This will increase the competencies of the successor and give him the confidence necessary to take on a key position or ownership. Sole ownership can foster an entrepreneurial spirit and the motivation to work hard.





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**Association of Small and Medium-sized  
Enterprises and Crafts of the Czech Republic**

Ms Kristýna STRNADOVÁ  
Sokolovská 100/94  
186 00 Prague 8  
Czech Republic  
[strnadova@amsp.cz](mailto:strnadova@amsp.cz)



Co-funded by the  
Erasmus+ Programme  
of the European Union

