



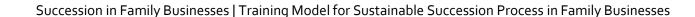
In this module you will learn

Which questions are good to ask before starting a family business succession

How to structure the succession process

What is Internal-Family succession

How to plan the transfer of responsibilities





Before we start, let's clarify one thing

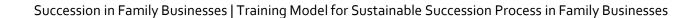


Succession is a process, not an event. Ward & McClure, 2021



It may seem banal or corny but it is vital to realize that succeeding a company to the next generation owners is not an overnight event. It has many forms and shapes, it includes various steps and areas to consider and it will, most certainly, take time to get prepared for it, to implement it and to get used to the new company's establishment.

The **SUFABU learning modules** are here to help you go through the process of intergenerational exchange in your family business smoothly and to avoid unnecessary problems. Each of the module is focused on different area of the process and provides you with crucial information to consider. Let us start with a general introduction: What is a family business succession?





Introduction questions

The process of succession should not be taken lightly. It can be lengthy, it can get complicated and it can surprise you when you do not expect it. It is, therefore, important to ask yourself some questions before you "jump into it".

When it is good to start with the succession process?

Who will take over the firm?

Am I *financially* ready to let go?

What to start with?

How and when to involve the next generation?

Am I *mentally* ready to let go?





Succession model



1. Clarifying goals and priorities



2. Reviewing the firm's strategy



3. Planning the transition of responsibilities



4. Valuing the firm



5. Financing the succession



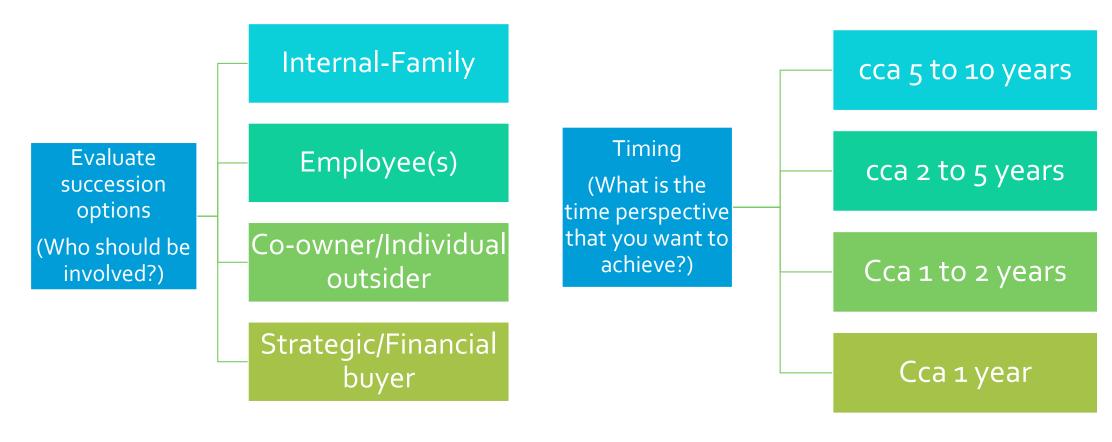
6. Structuring the tax and legal setup

- * The succession consists of several phases. This model helps you to understand and structure the succession process step-by-step. It can be viewed as a kind of guide of what and when to deal with.
- Prepare yourself, first two steps are the most time-consuming and critical for smooth flow of the process. Steps like financing or tax/legal setup will be strongly depended on the first steps. It is, therefore, highly recommended not to underestimate the first preparations.
- The model is defined by Thomas Zellweger, Swiss economist and professor for corporate and family business management.
- Let's go through the steps one-by-one.



1. Clarifying goals and priorities

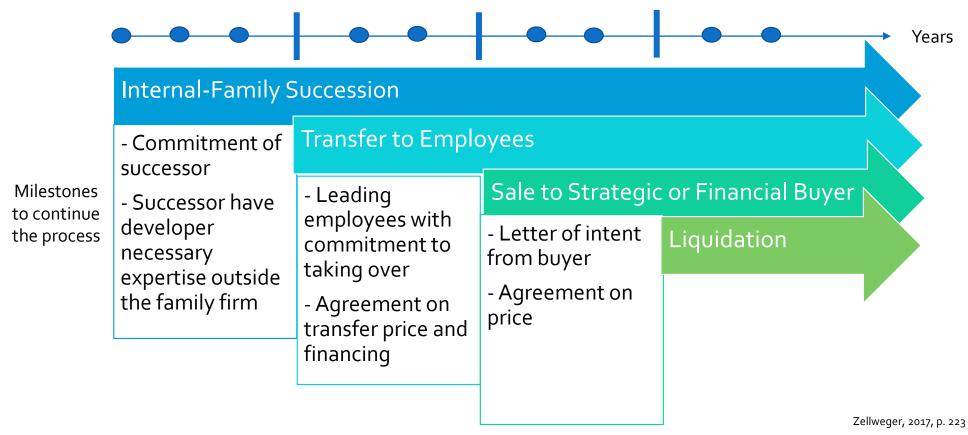
There is no single one "right" option how to succeed a family business. Each one involves different interested parties, each one takes different time. Therefore, consideration of various options for your business is crucial for an effective succession process.





1. Clarifying goals and priorities

It is good to prepare your succession scenarios in a timeline. Consider different scenarios, think of what they include and what milestones (conditions) must be met if you decide for this type of succession. In the example below, the process starts when the age of incumbent is ca 55 years.





- ❖ Let's have a closer look at the first option Internal-Family Succession. That means that the ownership will be passed on to member/s of the family.
- * Present the business as an option, not an obligation Inform your 15-/16-year-old children that they can choose what to do with their life and if they should be interested in the family business, they would be very welcome. It is healthy for them to think in terms of options.

Prepare your successor/s properly:

- > Let them to get outside experience.
- > Hire them into an existing job.
- > Encourage the development skills that are complementary to your own.
- > Teach the foundation it is very useful for them to know the underlying principles that hold the enterprise together.
- > Start with mentors it is better for the children who enters the business, to work for a mentor rather than with the parent. It should be the most valuable/loyal, secure and long-lasting employee. Be careful who will be the mentor, given his nature and ambitions.
- > Designate an area of responsibility.
- > Develop a rationale to the founder and the successor could both benefit from forming a rationale or a statement that says why all this is worth in to you.
- > Have family meetings.



Ward & McClure, 2021.





- Harmony
- Commitment
- Positive attitude
- Open communication

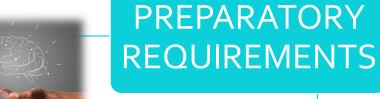


Support arenas

- Courses/training
- Family meetings
- Family council

(Read more in module 5)





Psychological factors

- Increased awareness
- Successor / incumbent willingness
- Stakeholder acceptance



Legal / financial factors

- Adequate compensation
- Cost implications
- Formal ownership power



Successful OWNERSHIP succession

- Satisfied stakeholders
- Avoidance of succession negligence
- Avoidance of financial constraint
- Strategic development

GOALS

Sund et al., 2015, p. 173



Remember that goals and considerations of incumbent and successor may be different. To succeed in succession, it is necessary to understand each other.

Ask yourself and your family member these questions and talk about them.

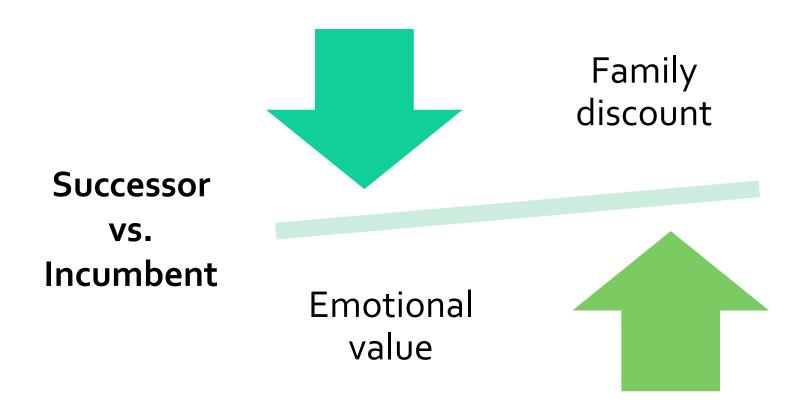
For more about generational understanding read Module no. 6



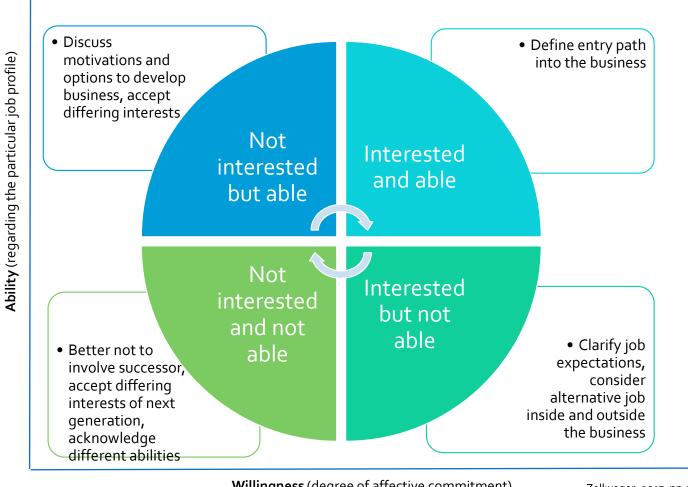


Personal goals and preferences influence also financial considerations. It is not easy to determine an acceptable transfer prices and it will be a serious matter of discussion with your family members.

Incumbents tend to overestimate the value because of emotional connection with the company. Compared to that, successors may want a family discount (as the firm is a part of inheritance).







It is crucial to consider the willingness and abilities of the potential successor.

The successor may or may not have an affective commitment - strong belief in company's goals and desire to contribute to them. Moreover, the may or may not have required abilities.

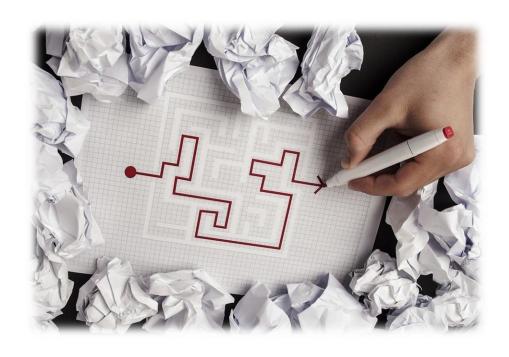
The Willingness / Ability diagram will help you decide how to proceed in different scenarios.

Willingness (degree of affective commitment)

Zellweger, 2017, pp.235



2. Reviewing the firm's strategy



After you clarify goals and priorities of your family business, it is time to review the company's strategy. For that you can use different tools.

- Realizing SWOT analysis will help you establish "Strengths, Weaknesses, Opportunities and Threats" of the firm. It is a basic tool to assess your company's current position before you start the process of succession (or any other new strategy or major steps).
- Creating Familiness profile will help you find out positive and negative influences of the family on the company, which could be both, a competitive advantage or disadvantage (for more about Familiness read Module no.7)

Don't forget to ask yourself important questions:

Which parts of the firm are to be passed on?

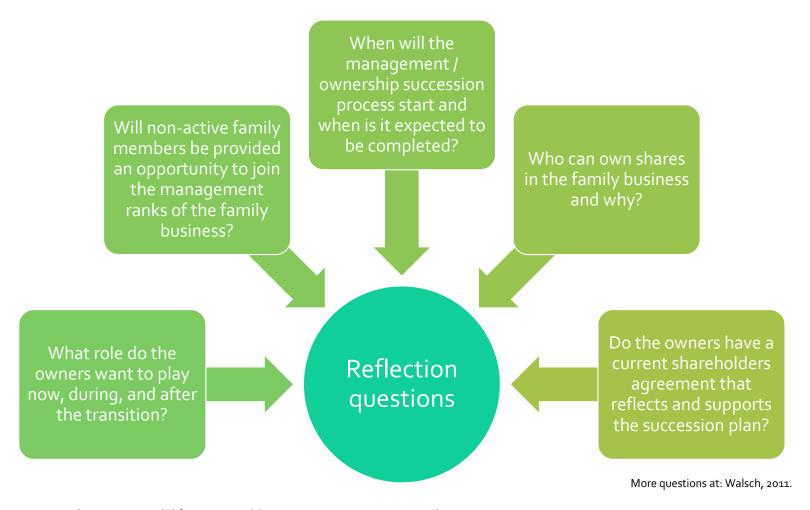
What are the incumbent's assets / finances in the firm?

What will happen when he / she leaves the firm?



3. Planning the transition of responsibilities

In order to plan the transition of responsibilities from one generation to another, it is important to clarify answer for several questions about management and ownership succession.





3. Planning the transition of responsibilities

Think about the paths that the successor takes and will take, what role he will have in the company and how to support and motivate him / her. As your children gain experience and new competencies, increase the number of areas of their responsibility. And never forget the importance of family communication! (For more about communication read module no.4)

Entry paths

- Top management?
- Middle management?
- Shop floor?

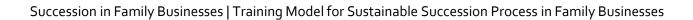
Adapting roles

- No role
- Helper
- Manager
- Leader

Grooming the successor

Support feelings of:

- Autonomy
- Competence
- Relatedness





3. Planning the transition of responsibilities

Succession of the company's management and succession of the company's ownership may or may not happen simultaneously.

Whichever way you choose for your case, make sure that the family business is well managed, stable and can stand the process.

Succession roadmap is a helpful tool that can help you plan the transition or responsibilities in time and according to its nature.

Next 3 slides show 3 different roadmaps for management, ownership and board succession. The example is based on a case of one parent and two children. You can see the changes in management roles during 6 years, the transition of ownership shares and the inclusion into company's board.

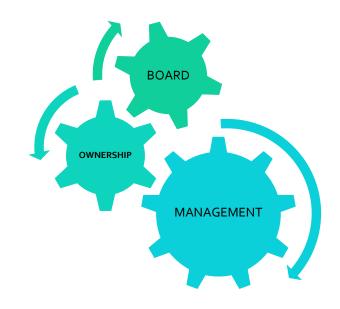
Define roles



Create succession roadmap

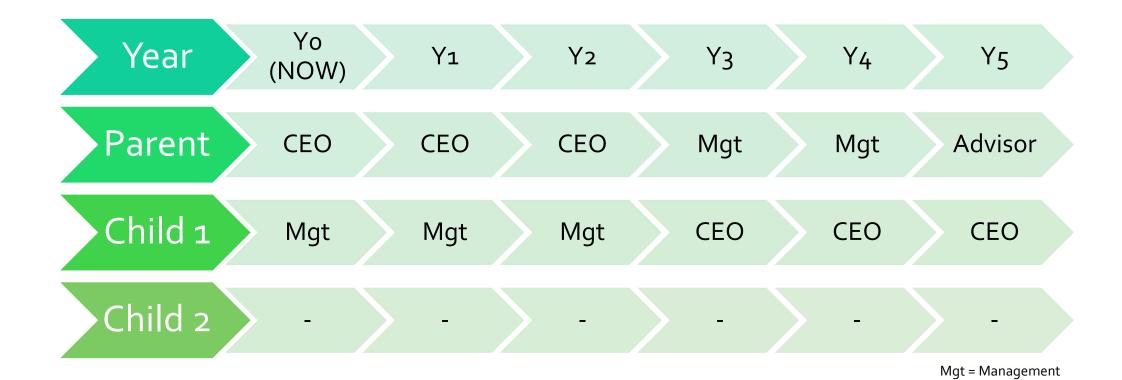
For more about roles read Module no. 3

Who is responsible for **what** and **when** responsibilities are transferred?





Succession roadmap (IFS) – management example



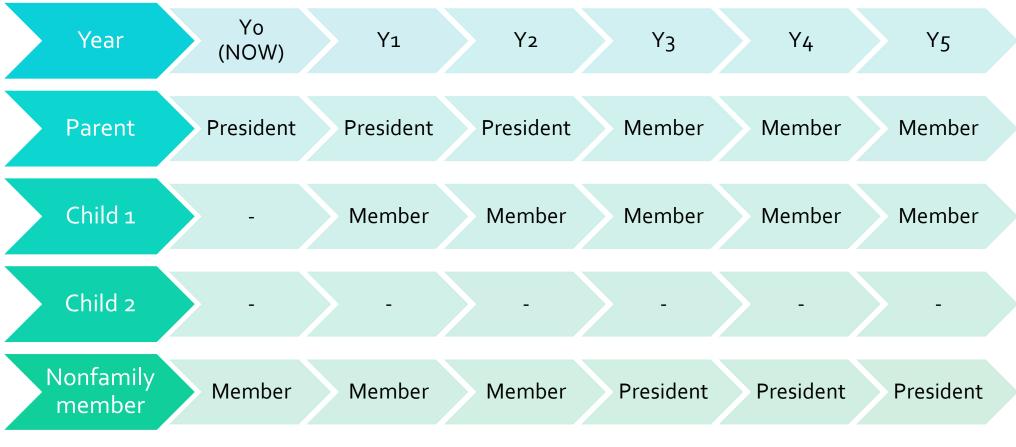


Succession roadmap (IFS) – ownership example

Year	Yo (NOW)	Yı	Y2	Y3	Y4	Y ₅	
Parent	100 %	100 %	100 %	o %	o %	o %	
Child 1	o %	o %	o %	51%	51 %	51 %	
Child 2	o %	o %	o %	49 %	49 %	49 %	



Succession roadmap (IFS) – board example

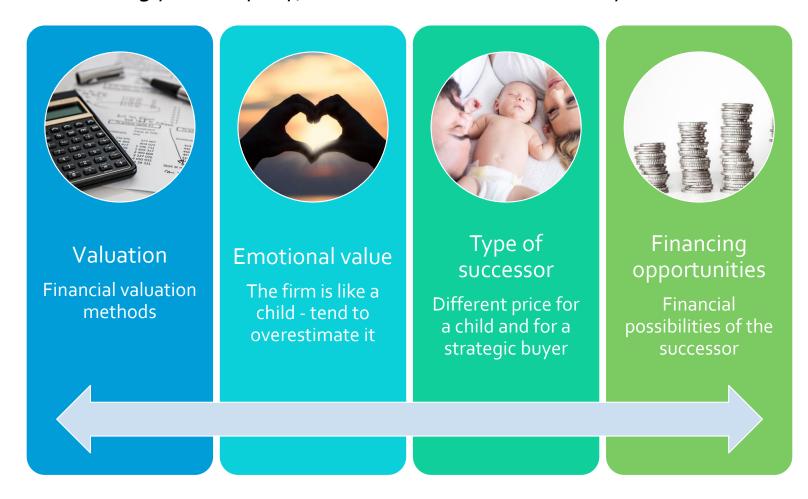


For more about family business governance read Module no. 4



4. Valuing the firm

When valuing you company, there are several factors that you should consider:





5. Financing the succession

How to finance the succession? There are several ways how to succeed the company, always make sure that you know the valid legislative and if you do not feel confident enough, do not hesitate to hire a consultant or a lawyer.

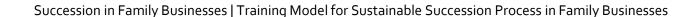
Successor equity

Loan

Inheritance / Gift

Combination







6. Structuring the tax and legal setup

Each country have its own tax and legal structure. Make sure that you study the relevant legislative in detail and follow the law.

Inheritance / gift / income and other taxes / FEES

Buy / sell agreements

IPO (Initial Public Offering)

Trust / foundation

Compensation agreements

Shareholder agreement

Zellweger, 2017; Sund et al., 2015; Walsh, 2011



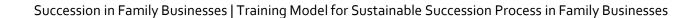


...compensation agreements are crucial to intergenerational ownership succession.

Sund et al., 2015, p. 172.



For more about fair compensation read Module no. 2





Conclusion - Succession model

1. Clarifying goals and priorities

6. Structuring the tax and legal setup

5. Financing the succession

2. Reviewing the firm's strategy

3. Planning the transition of responsibilities

4. Valuing the firm

Succession process is not easy. We have gone through 6 steps of the Succession model and seen how the model helps you successfully complete this process. Thanks to it you know what and when to address.

In the next module, we look deeper into various areas that are closely connected to the issue of succession.

Enjoy the reading.



It may take more than 10 years to complete the whole process. It is a huge challenge but who else than you can DO IT. ©





Sources

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PROJECT CONSORTIUM

















