

HOW TO MANAGE FAMILY BUSINESS SUCCESSION SUCCESSFULLY ?

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CRITERIA OF SUCCESSFUL SUCCESSION

- **Business assets (i.e. Business wealth)** have been transferred effectively from the earlier generation to the next one. This is the OWNERSHIP perspective.
- **Managerial power and responsibilities (i.e. Management tasks)** have been transferred competently from the earlier generation to the next one. This is the BUSINESS / MANAGEMENT perspective
- **Family harmony (i.e. Mutual understanding and cohesion in the family)** has been preserved in the above-mentioned transfers and thereafter. This is the FAMILY perspective and out of the three typically the most emotional.

CHARACTERISTICS OF FAMILY BUSINESS

- **Multirational and highly emotional organizations**
- **High level of complexity (three subsystems with strong level of interaction and dynamism over time)**
- **Long-term orientation. Aim to continuity**
- **Difficulties in balancing conflicting interests, such as family first or business first, or tradition vs. innovation, or family vs. non-family participation**
- **Parallel financial (and tax) planning of business and family**
- **Growth is often curtailed by financial constraints due to the desire of maintaining the family control.**
- **Main owners' humanity (incl. mortality) are the facts that cannot be overlooked.**
- **Transition periods between the generations (overlapping phases)**

THE IMPORTANCE OF GOOD PLANNING

- **Family business succession should not be an UNPLANNED EVENT but a PLANNED PROCESS**
- **The real test of good planning is a successful succession**
- **”Successful transition is creating a legacy, not just passing a business” (McCollom, 1998)**
- **Planning includes both the strategy and the structure**
- **Good economic planning may remarkably reduce the tax consequences of family business succession and helps to maintain the liquidity in the family and in the business.**
- **Good planning is related to the retiring and entering schedules (incl. the successor’s education & training)**
- **Good planning can reduce the emotional stress of succession**

CHECK LIST TO THE RETIRING HERO

- **Decide together with your family whether or not to continue as a family business.**
- **Consider whether or not your family is prepared and willing for a longish transition period.**
- **Make an action plan for the succession process. Do not make it too rigid.**
- **Consider stakeholder relations widely enough. Prepare the stakeholders for the forthcoming change.**
- **Aim at the consensus in the most critical questions of the succession between the family members**
- **Create an inspiring vision regarding the future. Show the role and position of each actor in that vision.**
- **Choose and train the successor with good timing. Remember the impact of psychological ownership.**
- **Give your support that your successor can build his/her own identity and authority. Do not "crush" his/her solutions. Allow that s/he can be different than you.**
- **Make a will (a testament) in time. Tell about its contents when you are still alive. You can change the will, if needed, later as long as you live.**
- **Make sure that all the family members know, what are their rights, duties, and possibilities re the succession and the continuity of the family business**

LEGAL FORMS OF TRANSFERRING ECONOMIC OWNERSHIP (ASSETS, WEALTH)

- Trade i.e. Sell/Buy arrangements with "market price". The target can be the whole firm or just the business or a part of those.
- Trade with a price that is below or above the "market price".
- Buying the predecessor out by using company's free equity capital.
- Issuing new shares to the successor(s)
- Merger (leading to an acquisition or a combination merger)
- Splitting the company
- Preheritance or Gift
- Heritance with/without a will
- Leveraged buy-out. Using company's future earnings to buy out the predecessor
- **N.B. Consider the impact of prenuptial arrangements** (i.e. Conditions to arrange the ownership questions between the spouses)

SUCCESSION AND ECONOMIC PLANNING:

Business and **Individual Family Member**

- **Taxation planning**
- **Financial planning (solvency, liquidity)**
- **Investment planning**
- **Transition phases: one-time or stepwisely ?**
- **All assets or just partially ?**
- **Transfer of debts: all or not?**
- **Possible divestments**
- **Personal taxation**
- **Personal solvency and liquidity**
- **Other options of investments. Alternatives.**
- **Ownership or co-ownership with siblings ?**
- **The need of personal sacrifices (inputs) to cover tax consequences and future investment needs**

WELL-MANAGED SUCCESSION AND FAMILY HARMONY

- Pat Alcorn writes: *“The solutions require far more than the ABC’s of business management. They require a thorough understanding of interpersonal relationships in which blood is thicker than water and emotional desires are more important than the bottom lines of the balance sheets.”* (Alcorn, 1992)
- Genuine, emotionally-loaded relationships between the family members
- Biological and social bonds
- In succession, the conflicts are typically task conflicts, relationship conflicts, or method conflicts.
- A family can be a source of joy and support or a source of distress and a burden, or both.
- Visible and invisible psycho-dynamics

ADVICE TO THE SUCCESSOR

- Remember that family business is also a way of life
- Therefore, consider carefully whether you want it to be your way of life.
- Be honest to yourself. Do not agree on the solutions and decisions that you cannot cope with.
- Feel responsibility for your education and training.
- If possible, get work experience from outside your family's business
- Be patient. It often takes time to get a good solution.
- Remember that the solution is good only when all or at least most of the involved have accepted it.
- Share your succession worries and problems with others. You will realize that your case is probably not very rare, but rather a typical one.
- Respect your parents' achievements. What they have done has needed a lot of effort. Do not depress or dismay them.
- Be realistic. Do not become megalomaniac.
- Be yourself. You cannot be and you do not have to be the full copy of your parents.

ADVICE TO THE PREDECESSOR

- * Let your children grow entrepreneurial. Do not discourage them.**
- Respect also other inclinations and characteristics in your children, not only their business-mindedness or enterprise.**
- Make sure that the person you pass the baton wants to be a leader and a responsible owner. Start the process when both you and the company are still doing well.**
- * Start the discussions about the continuity with the successor in time. Be realistic when choosing the successor. Do not be over-emotional.**
- * Do not give just titles. Give also power and responsibility that correspond with the title.**
- Be realistic when choosing the successor. Do not be over-emotional.**
- Do not only give titles. Give also power and responsibility that correspond with the title.**
- Make sure that during the transition period the personnel knows every moment who is responsible for which kind of matters. Otherwise there is a risk of a messy organization and there can be people in the staff who utilize your vulnerability.**
- Trust in the successors. Do not underestimate them. You are not irreplaceable.**
- Reserve some time for yourself. Create something "different" to do .**
- Enjoy what you have done and created.**
- Selling-out is not a shame and it is not an insult to your children either. Sometimes it is the optimal solution. However, it is a matter that should be discussed in the family.**