

# FAMILY BUSINESSES

## Succession problems

### Do you sell or pass on to the next generation?

This is a question that many small business operators, running family businesses, have to think very seriously about. Some commentators warn that families that build up successful businesses have a tendency to progress from rags to riches to rags in the space of a few generations; that the ambitious and fruitful labour's of the first generation are frequently followed by generations that squander the wealth by lazy or bad management, sibling squabbles or wild speculation.

- Does the family want to take over the business?
- Have they the necessary management skills to be able to manage it?
- Is it a chore?
- Do they really want to be involved in the family business or would they be much happier out doing their own thing or working for a big organisation?
- Does the business have a product that will survive in the next generation?
- Would the family be a lot better off if the owner accepted a cash offer from an external organisation to buy the business?

These are the sort of questions that need to be taken into account when you are considering whether to sell the business or pass it on to the next generation.

### Generation inheritance

Various surveys have found that one of the major problems of family businesses is the handing on of the business to the next generation. Very often this is not done satisfactorily and very few businesses survive through to the second and third generation. This is caused by a number of factors including:

- Lack of planning.
- Non viable business.
- Family members not interested in the business.
- The business dying out because of lack of new ideas and enthusiasm.
- The owner hanging on too long and discouraging all of the family members.
- "My way is always the best way" attitude from the owner - without encouraging any input from family members or staff.
- Not moving with the times.
- The product produced by the business being superseded by technology and other developments.

### Problems of family business succession

Family businesses need help to overcome the failure rate in the next generation. Successful family business owners need to develop a peer network with other family business operators, experienced company directors, professionals etc., where they can have access to a wide range of views on business operations, succession planning and involvement of the family.

Family businesses suffer from funding for growth problems because of the reluctance of most family businesses to seek outside investors. There are also limitations on the amount of money that can be borrowed for the business because of the virtual necessity to secure it on bricks and mortar assets. While

some banks are prepared to lend on a cashflow basis, cashflow lending brings its own set of problems in that management must ensure that prompt, regular and accurate financial data is being continually prepared, as this will be required on a regular basis by the banks and other lending institutions.

Various surveys have identified that most management teams of small family businesses in South Africa have been in position for a long time. The suggestion is that because of this period of time those management's do not have the breadth of knowledge that outside management has in what is occurring in the business world.

This highlights the necessity for small family business owners to be involved in activities away from their business with peer networking groups, whereby they can become continually confronted with business developments, technology innovations and new management thinking so that they maintain an ongoing management education basis for themselves and hopefully this attitude on continual retraining rubs off on other family and staff members of the business.

### Planning helps overcome the problem

The problems of succession planning are not insurmountable, but they will be if the business and the family does not methodically work on the problems so as to eliminate them - or at least neutralise them. This will require frank and earnest discussion by all participants on a regular basis. The preparation of a Business Plan and the regular updating of the Plan and the preparation of a Succession Plan will be necessary. The implementation of the required management and staff training for both family members and staff members will also be required so that the Succession Plan can be implemented. Succession Planning properly done involves a range of people including:

- The family
- Employees of the business
- Suppliers
- Bankers and Lenders to the business
- Customers of the business
- Professional Advisors to the business

Consideration should be given to obtaining one or two business people who can act as mentors to advise on the business strategies being developed for an effective Succession Plan. It is amazing how often an experienced business person not directly involved in the business, can quickly grasp a problem and make realistic recommendations as to how to overcome the problem. The fact that an outsider, who is trusted, has made the suggestions can, in many instances, help gain consensus from within the family and the business that the correct decision is being made, whereas if the suggestion had been made by a family or business member perhaps it would not have been as enthusiastically endorsed. The various surveys that have been conducted into family businesses highlight an alarming failure rate of family businesses in the second and third generation. The only way that family businesses are going to be able to overcome these succession problems is through proper planning and facing up to the problem.