Succession Planning for Family Businesses: 10 Best Practices

Prof.dr. Eddy Laveren, University of Antwerp & Academic director Competence Center Family Businesses, Antwerp Management School

Succession Planning for Family Businesses: 10 Best Practices

- Take your time & start early
- Prepare a well considered actionplan
- Make a strategic plan
- Develop an appropriate financial and legal structure
- Involve children
- Pay attention to corporate and family governance
- Develop talent for entrepreneurs
- Make use of external coaches and consultants
- Transfer of leadership and ownership
- Ensure good communication

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1 : Take your time & start early

- Start early to plan a succession.
  - The process consists of 5 phases:
    - **Orientation phase :** be ready in your head
    - **Information phase**: look for information sources
    - **Preparatory phase**: make a succession plan
    - **Execution phase**: executive the succession plan
    - **Post-succession phase**
  - At least 5 to 10 years

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2 : Prepare a well considered action plan

- Work with a well thought-out action plan, in which the timeline is clearly defined and the different steps are scheduled.
  - To ensure a good outcome, both generations agree on to which responsibilities will be handed over.
  - The members of the new generation may prepare and train themselves.
  - The previous generation can hand over the tasks in consecutive steps. This can provide stability to the company and the family members.

3 : Make a strategic plan

- Draw up a strategic plan for the company.
  - Make an analysis of the market, the customers, the suppliers, the government, the staff and other stakeholders.
  - Make a SWOT analysis:
    - Strenghts and Weaknesses of internal policies
    - Opportunities and Threats of external conditions

4 : Develop an approporiate financial and legal structure

- Pay enough attention to the financial and legal/fiscal aspects concerning the transfer of a (family) business.
  - Final goal must be clearly defined,
  - Technique must serve results, not vice-versa

  (eg. Introduction of a holding company to make a tranfer of ownership easier)

5 : Involve children

- Start involving the children even at young age in the operation of the family business.
  - The Belgian family business ‘Schoenen Torfs’ invites her familymembers as from 12 years to attend the yearly family forum.
  - Many family businesses allow their young relatives to learn about the company by offering holiday-tasks or by organising open days.

6 : Pay attention to corporate and family governance

- Provide appropriate governance structures .
  - A well functioning Board of Directors and an Advisory Council (for smaller firms), preferably with one or more external members, meeting on a regular basis with a well defined agenda and with members spending sufficient time to prepare the meetings.
  - The Belgian Code Buysse (for good governance pratices) advises strongly that the chairman of the Board of Directors preferably differs from the day-today manager of the family company (CEO).
  - Develop a family council and a family charter

7 : Develop talent for entrepreneurs

- Develop entrepreneurial talent within the family business and with potential successors

8 : Make use of external coaches and consultants

- Make use of existing professional advise and good external support for the whole succession process.
  - Accountants, auditors, lawyers, notaries or colleague managers can help finding good experts.
  - Demand advise and guidance with good knowledge of the facts.
    - Good introduction
    - Provide all information and data on the staff.

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9 : Transfer of leadership and ownership

- Transfer of leadership is a continuous process

- Proper transfer of ownership is necessary

  – The transfer of ownership can cause family conflicts
  – Balance between equal treatment of the children, an appropriate distribution of control and maneuverability.

10 : Ensure good communication

- Ensure good communication and make good agreements with the stakeholders.
- Prevention is better than cure.