So you’ve been running the family business for many years and believe the time is right to pass the baton. Successfully transitioning a family business to the next generation requires a well thought-out plan.

**KEEPING IT IN THE FAMILY**

BY PIETER SCHOLTZ

SUCCESSFULLY PASSING THE running of a family business from one generation to another could be a complex exercise. Done correctly it could also be very rewarding and serve to preserve the family wealth. We unpack some of the aspects to consider before embarking on this journey.

**1. LEGAL AND TAX MATTERS**

Most family businesses strive to create generational wealth and to ensure that this continues to grow for the benefit of future generations.

We strongly advocate appointing an independent attorney and tax consultants to advise you on your unique circumstances. As tax legislation changes frequently, it is advisable to conduct at least an annual review to confirm your compliance and to ensure that you are able to take advantage of opportunities that arise.

**2. DECISION-MAKING**

Clarifying the who, the when, the frequency, the forums and the levels of decision-making serves to ensure that all parties are aware of their areas of accountability.

It is important to identify which family members will play a role in the decision-making process. We recommend that members who play an active role in the management of the business be allowed to make decisions relating to the operational issues that affect the day-to-day running of the business.

Scheduling quarterly board meetings that include non-executive directors and relevant family members will ensure that all parties are on board concerning the strategic direction of the business. It also provides an opportunity for non-executive family members to be included in strategic discussions regarding the business.
3. FAMILY MANAGEMENT VS EXTERNAL MANAGEMENT

While this decision could be another source of conflict, transitioning the business provides an excellent opportunity to grow the business to the next level. Should family members not have the skill or experience to guide the business through this process, serious consideration should be given to bringing external management into the business structures.

The above notwithstanding, we deem it advisable to appoint some external management team members as they will be less inclined to get caught up in the emotional aspects of running a family business.

4. TIMING

Succession planning should be a key aspect of any business’ strategic plan — even in a family business. If you are running a family business and have not documented a succession plan, make the time to do so.

Discussions regarding the transition should start well in advance of the event so as to ensure that the correct planning and preparation is done. However, as this is an area where personalities and egos come into play, it is often easier said than done.

Situations often arise where the founders:

• do not believe that the time is right for them to step down,
• are doubtful that the next generation have the skills necessary to take the business to the next level,
• are not convinced that their children have ‘earned the right’ to take over the business, or
• want to treat all the children fairly even though their contributions to the business vary greatly.

We suggest engaging the services of external advisers or business coaches to assist the family in these discussions.

5. FINANCES

Obtaining advice from financial consultants and/or business coaches/consultants can help to ensure a smooth transition. It is our view that any transfer of ownership from one generation to the next should include payment for the business in some form or manner. The founders of the business deserve to be ‘rewarded’ for the role they played in leading the business to its current level.

Developing a clear remuneration strategy that takes into consideration all the key role players, including shareholders and family members (even those not directly involved in the business), will go a long way to ensuring a smooth transition and managing financial expectations.

6. ROLE CLARITY

Developing the organogram for the company well before the change takes place will ensure that all affected parties are clear about the roles they will play in the ‘new’ company structure and under the new leadership. A well-defined organogram and detailed job descriptions will assist the founders and new management, and will provide clarity for employees. For the founders this is often a very emotional time as they too will need to acclimate to their new role as perhaps technical advisor or non-executive director.

7. CONFLICT RESOLUTION

If not managed correctly, family businesses that are in transition can become a breeding ground for conflict. Effective conflict resolution mechanisms need to be developed to ensure that disputes are addressed timeously and correctly. Employing the services of an independent third party to help manage conflict resolution, is recommended.