



WIFU_compact_09:

Succession in Family Businesses: Ten Principles

Succession in a family business is not a single or sudden event (except in the case of unexpected misfortunes). Thus, to manage the succession question sensibly in a family-friendly way, it should be understood as a process. As this process concerns family and business alike, WIFU describes it as a co-evolutionary development. Ten specific principles can help to make these arrangements thoughtfully.

To what extent are these principles related to practice?

These rules, as well as the Witten Phased Model of Succession, are based on more than two centuries of research at and with multiple family businesses and business families. Although every family and every business (and their respective interaction) are unique, we recognise common problems and issues in clearly definable phases.

1 BROACH THE ISSUE OF SUCCESSION.

The issue of succession is usually accompanied by unspoken expectations and wishes. Open and honest conversations are extremely important, as substantive questions ("Can he do this?") inevitably become mixed with personal questions ("Why my sister and not me?") when a business is closely linked to a family. Clarity on both sides – the outgoing and the incoming generations – is decisive for the success of a succession process.

2 DIFFERENTIATE BETWEEN SUCCESSION IN LEADING THE BUSINESS AND BEING A SHAREHOLDER.

Although the latter is often disregarded, non-managing shareholders have to endorse strategic decisions or hold posts on committees. As a rule of thumb, while the advancement of knowledge is important in smaller shareholder circles, larger circles require a more formalised and resilient decision-making structure so that conflicts are avoided or, at least, do not affect the business.

3 REFLECT ON IMPLICATIONS CONCERNING FINANCES, TAX LAW AND INHERITANCE LAW.

In this case, it is critical to balance fiscal optimisation and individual needs. Most questions concerning inheritance and statutory shares, pension provision and the adjustment of shareholder agreements require the input of an external expert.

4 THINK ABOUT THE BUSINESS (WITHOUT THE FAMILY).

Would we make different entrepreneurial choices (and, if so, which) if the link between business and family did not exist? This should identify which compromises are merely settled upon for the sake of the family but at the cost of the firm. Businesses can only be sustained if the individuals involved or the business family do not put their welfare above the community or the firm.

5 THINK ABOUT THE FAMILY (WITHOUT THE BUSINESS).

Here, we reverse the above logic: what would the family decide for themselves without the business, which directions would they follow? Examining the interconnectedness of the two systems will show their reciprocal effects. The cohesion of the family is a key value and should not be damaged.

6 PRIORITISE COMPETENCY AS A SELECTION CRITERION.

This issue requires honesty. How would the family select an external candidate? Would candidates from the business family still be considered suitable if they were not the sons or daughters of relatives? One guideline should be "competence over descent". Thus, the use of external expertise is recommended to excuse the family from decisions on family members.

7 SUCCESSORS SHOULD BE ABLE TO FOLLOW THEIR OWN ENTREPRENEURIAL PATH.

Similar to the so-called “waltz” of young craftspeople, potential successors should gain experience in another firm and/or another country to gain experiences and competencies. Especially with regard to the dynamics of the digital environment, a “digital waltz” has shown fruitful for the members of NextGen!

8 DO NOT ABANDON SUCCESSORS (OR THE OLDER GENERATION).

Learning something “the hard way” or being thrown in at the deep end can demotivate successors or push them to become lone warriors. Solidary support and cross-generational communication, on the other hand, can create a more positive entry. In addition, the older generation will value open interaction to express their concerns and fears about their exit.

9 CONSIDER ALTERNATIVES TO A FAMILY-CENTRED SUCCESSION.

The overarching goal is to maintain the firm’s viability – whether the family’s children are suitable successors should be a secondary factor. Just in case, alternatives to a family-centred succession should be considered, for instance, the facilitation of external management, the establishment of a foundation, or the sale of the firm.

10 EXTERNAL ADVICE IS USEFUL.

The question of succession is one of the most important decisions for the entrepreneur, affecting the workforce, clients, suppliers and other stakeholders. Thus, the use of consultants and the support of specialist lawyers and coaches can have a significant impact on the success of the transition.

Will I ever find peace from this exhausting subject??

As the German saying goes – “Nach dem Spiel ist vor dem Spiel” (*After the game is before the game*). Thus, after succession is before succession. This is certainly the mindset of family businesses that have succeeded in becoming “dynastic”. Approximately 90% will not accomplish this – only a fraction of all family firms reach the third and later generations, highlighting the importance of a thorough succession process. At the same time, the family constitution and family strategy must be regularly checked and adjusted to new situations and updated circumstances.

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