



Succession Planning: Why is it so hard to do?

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Why is Succession Important?

- **Small business owners**
 - 33% aged 50+ years
 - Rate increasing at 3.7% per annum
- **Business exits cost per year**
 - around 3-4% GDP
 - 10% of the total job losses
- **Most business owners DON'T plan for succession**
 - Negative implications for the business, family, community, society and economy of NOT planning.



What is Succession?

- **The transfer of the management and/or the control of a business.**
- **Ownership succession**
 - focuses on who will own the business, when and how will that happen.
- **Management succession**
 - focuses on who will run the business, what changes will occur, when will they be accountable for results and how will results be realised.
- **Succession planning can be unsuccessful if these two processes are not coordinated or not addressed at the same time.**



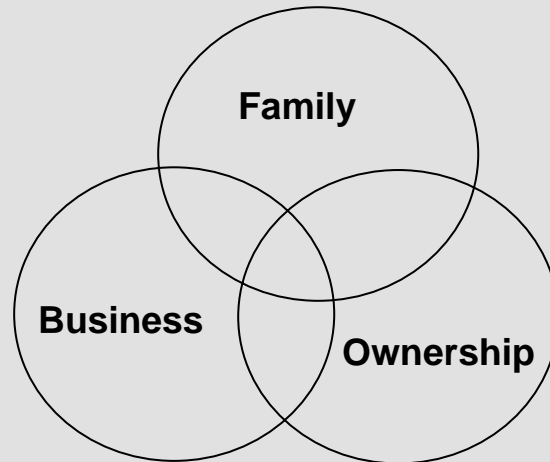
Options

- **Sell the business**
- **Close the business**
- **Merge the business**
- **Management buy out**
- **Employee buy out**
- **‘Pass’ to child/children or other family member/s**



Why is succession hard?

- Succession is a process of planning not a one-off event
- Succession deals with people and their relationships to one another



Relationships

- **Key individuals**

- Incumbent

- Successor

- > Organisational members

- Does the successor have the same relationship with key employees as the incumbent does?

- > Suppliers, clients

- Does the incumbent have exclusive relationships with key suppliers or customers and if so how will the successor capture/manage these?



Relationships

- **Family members**

- These relationships very important when intergenerational transfer is desired.
 - > But complicated by multiple roles
 - Boss = parent, Employee = child, Book keeper = spouse, Dispute resolver = spouse
- Incumbent's spouse can play a key role in buffering the relationship between father/mother-son/daughter.

Relationships

- **Between individuals and the business**
 - Do the incumbent and successor share a similar stance to integrating family and business matters?
 - Are there differences in what the incumbent and successor want to do with the business, its future direction, ownership and management?
 - Do the incumbent and successor share the business values and culture?

Fostering good relationships

- **Communication**

- Between all individuals and stakeholders in the business about the plans for the future.

- **Psychology**

- Aligning expectations about the future
- Awareness of the mental state of the successor and incumbent to judge when succession should occur and what needs to be done to facilitate it occurring.



Incumbent leadership styles

- **Monarch**
 - See their role for life, are ‘indispensable’, they fail to plan and continue to turn up for work
- **General**
 - Partly retire, plot their return, and wait for a crisis to solve
- **Ambassador**
 - Delegate their responsibilities, retain high profile connections and representational duties after retirement
- **Governor**
 - Sets departure date and works to transfer power to this timeline
- **Inventor**
 - Readily prepares to transfer power and exit so that they can develop new enterprises or ideas
- **Transition Czar**
 - Sees the risks of a leadership vacuum and actively works to manage and shepherd the transition of power



Fostering good relationships

- **Individual and business life stages**
 - Are the incumbent and successor at the appropriate stage of life to facilitate a transition?
 - Is the incumbent ready to ‘slow down’?
 - Is the successor ready to take on leadership responsibilities?
 - Is the business in shape and ready to be lead by someone else?



Fostering good relationships

- **Preparedness**

- Are people ready to change?
 - > Is the incumbent ready to let go?
 - > Is the successor ready to take over?
- Does the successor have the requisite skills and knowledge to take over?
 - > Can be gained by working in the business, undertaking some study, or working outside the business.
- Are business systems in place?
 - > Capture knowledge
 - > Planning
 - > Control



How can succession be planned?

- **Like a relay race**

- Sequence

- > Is this determined? What are the current and future requirements of the business?

- Timing

- > What are the prevailing business circumstances?

- Baton passing technique

- > What's the best way for the incumbent to let go and for the successor to take up the baton?

- Communication

- > Is everyone aware of what's happening and when?



Why is succession so hard?

- **Confronts people with life's 'bigger' questions.**
- **Deals with relationships that are often complicated by people playing more than one role.**
- **Issues involved are 'human' ones.**
- **Requires planning and preparation.**
- **Must be underpinned by effective communication.**



FSBRU Vision

- **To be recognised nationally and internationally as a centre for high quality, interdisciplinary research that is critical and empirically focussed on family and/or small business.**
- **To secure on-going funding from traditional and non-traditional sources for research and development.**
- **To disseminate research in a relevant and practical manner suitable for academic, policy and practitioner audiences.**
- **To deliver training and development programs focussed on the needs of family and/or small business.**

