

## Briefing Note

### Securing succession for family businesses

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The importance of family businesses to the Scottish and indeed the wider UK economy should not be underestimated. The statistics below illustrate quite how significant an impact family businesses have across the UK:

- There are approximately 3 million family businesses in the UK, representing 65% of private sector businesses
- They employ some 9.5 million people
- They generate around £73 billion annually in tax receipts
- They are accountable for one third of the UK's GDP

Being at the helm of a family business, while rewarding, can also be exceptionally demanding on all fronts. It undoubtedly requires a visionary – a person with tenacity and determination to succeed – who can take others along with them and identify and fill skills gaps as the business grows. The dynamics of a larger, mature family business can be equally challenging, requiring skills in spotting successors to key positions and managing the disappointment of those who may not make the grade.

An immense amount of energy goes into keeping all of these plates spinning and driving the business forward, but while that is happening the person at the helm of the business still needs to keep an eye on the road ahead. This can often be an issue for first generation businesses. When is it time to pass on the baton and who will take it up?

When it comes to the point of retirement for a key individual, it is inadvisable to simply arrive at that point without at least the bones of a strategy in place. This is particularly important for those businesses which wish to pass the reins to a family member in the most tax efficient way possible. Clearly, if the successor is to be a family member, the process will need to have started long before the handover, with identification of the best family member for the role, training in whatever capacity and a good deal of time in the business so that all relevant knowledge can be transferred. There are, of course, situations where, perhaps because of an illness, the successor has had to step into the role much sooner than anticipated. While there is sometimes something to be said for 'trial by fire', having a sustained period of firefighting can result in business plans for that year not coming to fruition and more likely a loss of revenue, particularly for smaller businesses.

In some handover scenarios, it will not be appropriate or possible for the next generation to carry on the business – for a wealth of reasons including a simple lack of interest. Whatever the reason, however, the other options available to family businesses need to be assessed carefully. In the current funding climate, these options will undoubtedly take longer than they would have taken at the peak of the market. The options for an exiting founder shareholder include the following:

- A trade sale
- A sale to a private equity firm
- A management buyout
- An employee buyout
- A listing on the main market (if the business is of an appropriate size)

Of these options, employee buyouts have been relatively rare. However, there is an increasing appetite for them and there are specialist funds in the market which can provide the necessary assistance.

When passing the baton to a new leader, whether within the family or not, a key consideration is the time that it will take. A successful exit at the last minute is not a realistic option – the process involved can typically take 12 to 24 months from start to finish. If there is a capable management team in place, looking at a management buyout in the first instance might be a good starting point. However, a great deal of care is required to ensure that long before that process starts, there are restrictive covenants in place to prevent the management from soliciting employees and customers of the business. Otherwise, there is a very real risk that the value of the business might disappear if there is a disagreement and the management walks.

At present, if the health of the Scottish economy were measured purely by the number of listed Public Limited Companies headquartered in Scotland, it would be deemed in relatively poor health. It is vital for the economy that we have a strong pipeline of family businesses at varying stages in their evolution, which means having all of the right conditions and support mechanisms in place for their growth and success.

The value of investments and the income derived from them may fall as well as rise and you may not get back the original amount invested in the fund. Past performance is no guide to future performance. Taxation is subject to change and depends on the individual circumstances of each client. Legislation is also subject to change. No responsibility can be accepted for any action taken in reliance of this note and specialist advice should be taken in every case. Turcan Connell would be happy to provide such advice.

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