

Successful Succession: effective strategies for business continuity

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With the reluctance to let go often cited as the primary obstacle to effective succession, the best succession plans are those where discussions begin well in advance.

Business succession looks at who will lead the business into the future. The long-term success of a business can significantly depend on a carefully curated succession plan. The need for a good succession plan applies to both family businesses and non-family businesses, particularly where employees depend on the business continuity.

In this context, succession can involve either the internal transfer of ownership and/or management, or the sale of the business to a third party. It has become increasingly common for key staff or management to be viewed as potential successors due to their familiarity with the business and its owner. Any transition should be gradual and requires thorough planning, discussion, and commitment from all parties involved.

For the exiting owner, the transfer of control can be easier if the initial stages of the transition are manageable. A controlled transition gives everyone the time to adjust to the changes and provides the exiting owner time to assess the successors' contributions whilst simultaneously helping them build confidence.

Two effective strategies for facilitating a staged transition include:

1. Developing a management succession plan that is implemented gradually before addressing ownership succession. This strategy enables the current owner to maintain control over the business while introducing management changes.
2. Transferring a small percentage of ownership to a successor, typically a key employee, often compliments a management succession plan. This arrangement frequently benefits both parties: the exiting owner receives a financial benefit while the successor gains a greater stake in the business, encouraging a positive contribution.

Establishing a staged transition allows for the opportunity to set a review date for the exiting owner to assess progress. If the transition is progressing well, the exiting owner may choose to continue with it. Conversely, if challenges arise, the exiting owner can decide to delay further decisions until the desired outcomes are achieved or reassess the succession plan.

With succession planning aimed at maximising the value of a business, minimising tax obligations and providing for the survival and growth of the business, it is easy to see that a lack thereof can pose serious risks and consequences.

If you need assistance with creating or implementing a succession plan for your business, including preparing for the legal requirements involved in a change of control or ownership, please reach out to our Corporate and Commercial Team.