

The continuance **of a legacy**

Building a business and passing it down is never easy. *RISKAFRICA* looks at the processes involved.

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In today's complex business environment where companies face significant competition, economic pressures, shrinking margins, reduced head counts and difficulties in finding qualified personnel, there are often challenges in continuing to operate efficiently and provide superlative products and services to clients. Compounding the issue is ensuring a seamless business continuity between generations when the time comes for the founders to pass on their legacy to their children and have the confidence to know their years of dedicated hard work will not be squandered and lost.

Aurik Business Accelerator CEO Pavlo Phitidis says building a family business and passing it down as both a legacy and as an asset is seldom achieved: only 30% of family businesses passed on to the next generation survive, only 12% succeed the second changeover, and a minuscule 3% survive the third generation transfer.

"Businesses take time to grow and, just as wealth is cumulative, so is momentum. Losing the momentum put into a business is not the only cost attached to a succession failure; families stand to lose their wealth base, while staff may lose their jobs," he explains.

While acknowledging there are multiple reasons why family businesses passed to the next generation can fail, he says many are rooted in the development of the business while under the care of the first generation, or that come to light as the business is handed down to the following ones.

WHETHER THAT BECOMES A THRIVING BUSINESS HANDED DOWN THROUGH GENERATIONS OR IS SOLD TO ENSURE THE FAMILY CAN ENJOY THE FINANCIAL BENEFITS FROM THE SALE IS IMMATERIAL.

Some of the key issues include different risk horizons and value sets, where successive generations operate in entirely new business environments; dysfunctional family circumstances, where the children feel antagonistic towards their parents based on their perceived neglect while the business was being founded; and assumption, where both generations assume the younger one will follow the older one.

"However, assumption can lead to dissent. Managing or playing a part in the family business should be earned, not automatically awarded," cautions Phitidis. He says in successfully passing down a family business, there are several factors that must be taken into account. For instance, while family businesses are often considered a legacy, that should not obscure the goal of developing a business, specifically to build an asset of value.

"Whether that becomes a thriving business handed down through generations or is sold to ensure the family can enjoy the financial benefits from the sale is immaterial," he adds. Putting into place a succession plan for a family business comes with various steps, the first of which is setting a common vision where the two generations rebuild the business with common goals.

Phitidis feels the next key element is reconstructing the business through a structured programme that accommodates and builds for a changing business environment and creates a structured growth plan, highlighting the interdependence on each aspect of the business. Also essential is integrating staff into the succession plan and ensuring they understand the redeveloped and re-engineered vision and objectives.

The last tip involves hiring a mediator, says Phitidis, indicating family dynamics and conflict can flare up; thus, securing an objective mediator can guide families through the succession process.

ContinuitySA CEO Michael Davies says the current business environment is "an endlessly shifting kaleidoscope of permutations" and organisations can never believe they have arrived at a solution or understanding that will hold well for any appreciable length of time. "Business continuity and the related concept of business resilience are increasingly important to executives and boards. Corporate governance codes like King III and now King IV, with their emphasis on sustainability, have ensured information communication technology (ICT), in particular, has been given increasing prominence in this digital world," he explains.

Business resilience is defined as the organisation's ability to adapt to disruptions and a changing environment while maintaining business operations. Business continuity management is the formal development and application of a plan to enable the organisation to continue delivering products or services at acceptable, predefined levels following a disruptive incident.

Davies believes for organisations to survive and prosper – and there is an argument that the same principles will apply whether the discussion hinges on succession planning among executives or as a recovery plan when companies experience business outages, security and data breaches, and hardware and software failures – they must enhance their resilience. In this respect business continuity management has a key role to play as it:

- Creates a forward-thinking organisation by providing a business impact analysis and thorough risk assessment
- Promotes good corporate governance by enhancing sustainability and providing a mechanism for managing risk
- Bolsters the confidence of employees, stakeholders, shareholders, clients and business partners by demonstrating a proactive approach to risk and continuously enhancing corporate resilience.

Keeping it in the family

Super Tyres MD Dean Horn and his sister Tracey Desauois, the national tyre company's financial director, encapsulate the issues facing business succession between generations. The siblings currently lead the company their parents, Bob and Jos Horn, founded in 1971 and acknowledge they have a lifetime's worth of boots to fill, not only in assuming the management and leadership tasks, but also in the emotional responsibility.

In an interview celebrating the company's 45th anniversary, Horn said the change of guard that saw him assume the MD's position progressed slowly over a decade as it became appropriate for his father to exit the hands-on level of management.

He officially took on the MD responsibilities in 2011, but the title only four years later when his father finally retired. "We developed our work ethic from an early age, but more significantly, we respect that without Mom and Dad we would never have had this opportunity to operate a business of this magnitude," say Horn and Desauois. 