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African Governance Showcase 2016

Succession Planning in a Family Business

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Succession Planning in a Family Business

In June 2016, the Mr Sipho Dhlamini, chief executive officer (CEO) of ABC Warehousing and Logistics approached Ginen Moodley of Moodley Attorneys Inc. for advice on success planning in his family business. Moodley knew that 70% of family businesses did not succeed after the first generation and that proper succession planning would therefore be critical to the firm's long-term survival. Yet issues of succession planning were always complicated in family businesses. He wondered how best to advice Mr Dhlamini and his family.

Mr Dhlamini and his three children – Mandla, his eldest son, Mbali, his daughter and Andile, his youngest son – started ABC Warehousing and Logistics in 2002. Thirteen years later, the company employed 250 people and was generating revenue in excess of R100 million a year.

The family business was built on the transport division, which was steered by the eldest son. This business unit was proving to be the most difficult to manage, because the industry in which it operated had low barriers to entry and competed heavily on price.

The youngest son headed up the warehouse management arm of the business: a business unit which had grown steadily and consistently over the years and which had the most potential for substantial growth in the future. Andile's vision for the unit was to grow its core revenue generating areas organically, while diversifying systematically into ancillary service offerings within the ecosystem of the family business.

Mbali, the daughter, performed the crucial support functions of the business, namely financial and human resources management. In addition to this, she played an important role as a cohesive agent for the family members as well as the various stakeholders in the business.

Each of the children had been performing these roles since the inception of the business

By 2016, Mr Dhlamini was reaching retirement age and was keen to hand over the business to one of his children. The natural progression would be for the eldest son to take over the business. However, Moodley wondered whether this would be the best move in this instance, given that the eldest son had already built up deep knowledge about his division. Thus, because of the complexities of running the division, his knowledge and expertise may best be put to use there than as CEO of the company as a whole.

Likewise, the youngest son was clearly enjoying building up the warehousing division and did not seem that interested in taking on the responsibility of running the entire family business.

In Moodley's opinion, it was the daughter who was best placed to take on the role of CEO, but would family dynamics allow the daughter to take on this role?

He had to come up with a plan that would diffuse the potential for conflict, avoid disruption to the business and lead to seamless succession from the father to one of his children when the father decided to retire in 12 months' time. What would be the best way of going about this, he wondered.

Questions

Why is succession planning so important in a family business

How should the change-management process be handled in order to ensure support from stakeholders, including the 3 siblings

What factors (related to good corporate governance practice) influence succession planning in a family owned business

How might a family constitution help avoid some of the issues faced by the Moodley family

What groups within the family might be engaged in the succession conversation

Advising the business today what might you suggest as preparation for individuals who are pretenders to the company leadership

What would you recommend as a structural change to the board? Family that would help the process of succession.

Epilogue: Succession Planning in a Family Business

In order to ascertain the expectations of the directors of ABC Warehousing and Logistics, Ginen Moodley, engaged with each director to understand the characteristics that such a person should have, as well as the duties and roles such a person would be required to fulfil. He began with gauging each director's expectations as to what they thought should happen.

He suggested that each director should rotate into the others' business units to get an appreciation of the others' responsibilities, management and operating styles, as well as to understand the challenges of the others' business units. The purpose of this exercise was to help to develop a new strategy for the family business, and, more importantly, to determine the characteristics and qualities that the new CEO should possess.

To avoid destructive conflicts between the directors, Moodley ensured that each and every document regulating the business and family relationships in the business was refreshed – or created, if not in existence already. Moodley acknowledged that this could seem to be a bureaucratic approach, but he said his purpose was to embed the founding principles of the directors in the business and to diffuse the potential for conflict and bias.

He then put in a place a process that, over the next twelve months, would ensure that:

1. **A family business constitution was drawn up, along with rules for family forums;**
2. **Governance structures/advisory committees, such as audit, remuneration, social and ethics, were established;**
3. **A directors' charter was drawn up, along with personal mission statements and development plans for each director; and**
4. **Knowledge was transferred between directors by putting in place regular mentoring sessions between the CEO and his directors other relevant third parties, and by developing trustworthy networks of companies experiencing similar issues.**

At the time of writing this epilogue, the outcome of this process was not known.