Successful Succession Planning for SMEs
Introduction

Thank you for attending the Institute of Directors panel event on succession planning, hosted by Duncan Cotterill.

Our panellists have provided guidance for directors assisting owners, managers and shareholders with succession planning in small and medium size businesses.

Why is succession planning important?

Research indicates that up to 40% of business owners will be looking to retire in the next 5-10 years. A large number of SMEs don’t survive into a second or third generation but businesses that plan for the future have a higher survival rate. This highlights the importance of doing quality long-term succession planning well in advance of retirement or exit of current owners.

What you need to do

For a succession plan to be successful it is important to:

- Start planning early.
- Select a good multi-functional team of advisors.
- Meet and communicate regularly with all stakeholders.
- Explore all options and keep an open mind.
- Prioritise direction over destination.
- Write down the succession plan and keep it updated.

The following checklist is intended to provide business owners with a number of questions to consider that relate to their state of preparedness for succession. Not all questions will apply in the same way to every business. It is a guide only and it is important that any business starting or working through the succession planning process appoints professional advisors to assist them to achieve the best results.
### Key questions for owners

#### EARLY QUESTIONS

- What stage of development is the business? (e.g. Start up, growing, mature – this will help determine exist strategy options).
- Do you have a vision for the future of the business?
- To what extent is family currently involved in the business?
- Do you want ownership of the business to remain in the family?
- Do your potential successors actually want to take over, and do they have the required capabilities?
- Have you considered the impact on other family members, non-family employees, other key stakeholders (bank, customers etc).
- What is the decision-making culture in the business?
  - Do you make all the decisions?
  - Are employees involved in vision/decision-making?
  - How much family involvement is there?
- To what extent does the business rely on your skills and relationships?
- How long will you remain involved in the business post succession?
- What is important to you personally for the business transition? (e.g. Value maximisation, staff well-being, legacy).

#### ARE YOU AND YOUR BUSINESS PREPARED?

- Are you (as the current business owner) prepared for the succession planning process?
- Have you identified your future financial requirements so that you fully understand the implications of exit?
- Have you structured your business and other investments to enable transfer or sale of your interest and achieve greatest value?
- Do you have a successor(s) in mind? What is that person(s) involvement currently? What training would they need?
- Have you considered how family members/employees may feel about the proposed succession plan? Have your views been communicated to other stakeholders?
- Have you met with any outside advisors/other stakeholders to discuss succession planning?
  - Consider multiple advisors to address specialist topics.
- Do you know what the business is worth?
  - Consider an external valuation.
- Do you have appropriate accounting and business records that show the history of the business?
  - Prepare budgets and forecasts.

#### DEVELOPING A STRATEGY

- What is your timetable for succession?
- Have you identified the advantages and disadvantages of your specific ideas about succession for the business?
  - Transfer to family.
  - Employee/management buy out.
  - Sale to a third party.
- What are the tax consequences of the different succession options for your business?
- Have you considered the family law/estate planning implications of your exit?
- Are there any contracts/arrangements that might impact on the exit strategy chosen?
- What are your contingency plans for events such as death, disability or failure of the current succession plan?
## PREPARING FAMILY SUCCESSORS

- Have you agreed a future governance model including reserve powers?
- Does your successor have or need outside experience so that they can come into the business with credibility?
- Will ongoing professional support/mentoring be appropriate for your successor?
- What is going to be the process for setting their remuneration?
- Do you need an induction plan and ongoing assessment or monitoring?
- How will you manage the rest of the family and other stakeholders?
- How will you agree on an exit plan for incumbent?
- What will your role be in the business going forward?

## IMPLEMENTING THE PLAN

- Is your succession plan in writing?
- Does the plan contain milestone dates?
- Does the plan meet your current goals/objectives?
- Have you shared the plan with all stakeholders?
- Have you identified key dates for review of the plan and actions?
- Do you have a contingency plan if the intended succession plan does not occur?
- Do you have others to hold you to account on the implementation (board, advisors)?

## Contacts

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