

# DON'T KID YOURSELF – YOU'RE NOT ENTITLED

or

How to approach your family  
when it is time to  
take over the family business

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# Don't Kid Yourself, You're Not Entitled to it.

In a family business, there are those within the family who want to take it over and those who do not.

And, in many cases, this means awkward conversations and, dare I say it, fights. Some of the fights are resolved in time. Some are not.

Taking over a family business will not happen overnight – it actually takes a period of years. It is rarely the case that Mum or Dad<sup>1</sup> says, “Here you are” - and suddenly it is yours. Successful transition will be the result of *years* of preparation.

So why can't you just take the reins?

- Don't kid yourself, you are not entitled to it.
- Mum and Dad want to be paid for the business – after all, there have been many sacrifices. Mum and Dad have spent time, money and energy making it profitable. They have given up much. Assuming that the business is worth something and an external third party would pay something for it, why shouldn't you?
- Mum and Dad have an emotional investment in the business and you so they want to see you and it succeed going forward.
- You may not be the only person staking a claim – your siblings or other family members may also want in.

So what can you do to ensure a smooth transition?

In this paper, I will go through seven steps to a successful acquisition of a family business. Because not all family businesses or families are the same, not all the strategies suggested here will work. However, use it as a guide, and use any parts you can to get yourself from where you are now, to where you deserve to be.

The paper is based on a simple transfer of the family business from ownership by parents to a child or possibly children. The principles also however apply to a more complex structure. Accordingly, the use of the expression “Mum and Dad” is intended to describe the current owners of a business in the context of an inter-generational transfer - regardless of legal ownership structures.

## Look In the Mirror

Take a good long hard look in the mirror. What do you see? A skilled business person with relevant skills and experience? How would you rate your financial skills? Do you know why your gross profit margin is important? Do you even know what a gross profit margin is?

Like it or not, just because you may have been working in the business, it does not mean that you are the person to take it over. You may be a great technician, but as a business person, you may still have to build your credibility and reputation.

You cannot always rely on experts to give you answers if you don't know the questions to ask.

Alternatively, your skills as a business person may be second to none, but technical or industry knowledge lacking. In order to run a business successfully, you need to understand the industry in which you intend to work. You need to know both the technical aspects so that you understand the day to day issues that could confront you in your quest for profit and from the business aspect, so that you know how to cost your goods and services and make a profit.

***Your strategy is to put yourself in a position that allows you hold an advantage through learned and practical skills and experience over all other comers. Do this first as you may make enemies of other actual or potential stakeholders if you are seen as too ambitious.***

You may have heard that some family businesses insist that the person who wants to take over the reins obtain:-

1. Outside business experience; and
2. Formal qualifications in the area in which the business operates

And when they do come back to the family business, the person will need to prove themselves in the business and earn the top position to which they aspire.

This approach has a lot to recommend itself. BUT most SME's don't have a human resources department and the aspiring business owner is not being judged by the very person they are going to replace. So, whilst this approach is great for larger family businesses, it might not work for yours.

Even so, there can be no doubt that it is worth you getting that outside experience. Why? First of all, to bring fresh ideas. How to do things differently, possibly better. Secondly, so that you learn skills outside within an environment in which you will be judged objectively on your merits and not as a person "entitled" to the top position.

But if you are not in a position to gain experience outside the business, you might consider getting some executive coaching.

Once your skills and experience stack up, you will have to decide whether or not you are ready to take the first step towards transitioning into ownership of the business – that is, talking to the family and talking to Mum and Dad.

Whether you talk to Mum and Dad or the family first is a question of family politics. Courtesy will dictate that you should raise the issue with Mum and Dad first, unless they are incapable of running the business (that is, actually incapable rather than not running the business as you would). Remember Mum and Dad may need time to collect their thoughts and you need to ensure that they do not feel ambushed by your actions. Being approached by someone with a serious proposal could be confronting.

Also, you must be aware that you may not like what you hear from Mum and Dad.

Some of their possible responses include:-

1. You have to be kidding! There is no way you could possibly replace your father/mother!
2. We had not discussed this as a possibility.
3. What a great idea, we were wondering whether to approach you.
4. It's a bit soon just yet!
5. What will I/we do if you take over now?
6. We can't afford to retire just yet.
7. Great, I could continue to do ..... in the business.
8. How do you propose to come up with the money?
9. What about your brother/sister?
10. We thought that ..... would be better suited to do this.
11. We are already in discussions with.....

So be prepared – it is unlikely that you will have considered all the possible responses.

If the feedback you receive from Mum and Dad is distinctively negative, consider it an opportunity for improvement. Ask yourself candidly why they do not yet consider you as a potential buyer of the business. Once you know what areas need improving, you can take the necessary steps to overcome their objections and work towards repeating this step - Look in the Mirror. Remember, this is going to take much longer than you thought.

If there is an opportunity to buy in, then you will need to go to the next step – and prepare for the first meeting.