# Planning for the Future

**The superyacht industry is full of a large number of innovative and forward thinking companies, several of which have now been in business for many years. But as a business advances, succession planning becomes increasingly important.**

BY ELLIE BRADE

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It is a fact that all company directors will eventually leave office, yet studies show that on average over half of businesses do not have a formal succession plan in place. Family businesses in particular have low survival rates past the first generation with Forbes reporting that only 30% survive into the second generation, 12% survive into the third, and just 3% operate into the fourth generation and beyond. It is bad business practice not to plan for the future, yet for so many companies this is often not executed in a planned or timely manner - if at all.

So, why is succession planning so important? In a nutshell, good succession planning ensures a business is viable to continue into the future. It places a business in the position where it is able to operate and exist without the input of the original founder/s, and applies to growth scenarios as well as the retirement of key personnel. Separation of ownership and management is extremely important when future-proofing a business, and this applies to all types of businesses, whether family owned or not.

For many companies, especially smaller operations, it can be tempting to file succession planning as a problem for later. However, good succession planning is not an overnight process and, besides, life can be unpredictable. Company succession might sometimes become necessary due to poor health or unexpected growth – in these cases lack of planning can be disastrous. "The yacht building industry, despite its glamour, is a very risky and competitive business," says Klaas Hakvoort of Hakvoort Shipyard. "Companies like ours must think long term."

There are three key elements to succession planning: getting the right people/roles in place, getting the right processes and structures in place and getting the right governance in place. Understandably this can all take time. On top of this it is also important that an exit can be funded properly, whether it is creating a structure for offspring to buy shares off parents, or ensuring that potential buyers can obtain the finance needed to complete the process. Financing the transition through succession planning is an article in itself, with many options including private equity, vendor finance, and these will completely depend on what the business is and does. A topic of discussion for another time...

Finding the right people can be the biggest challenge, and with family businesses many will begin within their family and start early. "If you embrace your next generation quite early, to expose them to the business, it is beneficial in two ways," says Henk De Vries, CEO of Koninklijke De Vries Scheepsbouw. "As well as potentially finding future executives, they can see the business in real time and they are going to ask you questions that will force you to think... the best thing you can do is take advantage of the fact you are different generations and look at things through their eyes."

It is important to stress that it is, of course, possible to be an owner and work in the business, but ideally you need to remove reliance on you for the business to run at all in order to make it future/sales proof. This is easier with a bigger company, as there is less likelihood that things revolve around one person/idea/skill and while there will still be key people it will easier to recruit them in. For example, if you are a running a yard with 500 employees it will usually be possible to find/afford a CEO who knows how to run a business of that size (and indeed some outside perspective is often a good thing). For small or medium-sized businesses however, paying someone to do what you were doing is often a big cost to bear. This is why many people in smaller or family businesses will spend many years training a replacement up with the intention of them taking over down the line, often with a protracted buyout package.

A textbook problem often faced in the succession planning process is the balance between old and new with current owners often wanting to remain very involved, potentially stifling the next generation. Managing the changeover process is a careful balance of ensuring the valuable input of old and new, and it is important that the older generation know when the time is right to step back. This is where the importance of governance must be stressed, with a good option being directors moving away from day to day management and into governance roles, allowing them to still instil invaluable knowledge and advice but without the responsibility of running a company. This process can sometimes be emotional and highly charged and often this is where the input of an external party can be valuable. It is probably fair to say that often, or even always, a company benefits from having an external perspective, whether an advisor, consultant or chairperson etc.

> **"Even if all of our three children want to continue the business, they also have to be capable and truly passionate about it. Otherwise they will certainly fail."**

In summary, succession planning can have many benefits and can also serve as an exercise of opportunity, using the process to gain a better understanding of existing talent and identify areas for developments. Regardless of whether a succession plan is executed or not, everything that is done to ensure that a business is good to sell/pass on and to build a good brand is likely going to be good in the long term for the business, making it more enjoyable to run and, importantly, more profitable. ◆

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Top: *Just J's* launches at Hakvoort in 2015

## SUCCESSION PLANNING IN REAL LIFE

**There are many industry examples of succession planning in action, with family shareholder handovers including those at Koninklijke De Vries Scheepsbouw, Hakvoort, Rossinavi and Lürssen to name just a few, and examples of non-family company sales including that of Royal Huisman, Doyle Sails International and the North Technology Group. Here are just two case studies in brief.**

Henk de Vries

### HENK DE VRIES

CEO, shareholder and fourth generation family member of Koninklijke De Vries Scheepsbouw (Feadship)

"Koninklijke De Vries Scheepsbouw's succession plan has been an evolutionary process that has been refined with each generation. From generation one to two there was no succession plan; two sons took over the company from their father, and no money changed hands whatsoever. From the 1930s through to the 1960s the company became quite valuable and when it was time to hand over to the third generation, my father and uncles, it had become a financial transaction and the next handover was, essentially, a business deal.

By the time the fourth generation – my cousins and I – stepped into the company in the mid 80s the succession process had been formalised into rules, with guidelines on succession and mandatory retirement ages, however these were not necessarily binding. In 1992, almost 90 years after the yard was founded, the very first official shareholders agreement was written. This dealt mostly with succession, the value of shares, who you could sell them to, who was obligated to buy/not to buy and it was a very mechanical document. Further rewrites came in 1999, 2005, 2009 and 2013. It's relevant that I know all those dates off the top of my head as they really were milestones in the development of the governance of the company.

Today some, but not all, key positions are still held by family members. Of the seven or eight really crucial positions in the company, four of these are held by family members. It is not automatic that children of shareholders will be appointed to the family boards or key positions. For this reason, we cast our net wider than our offspring to find potential future executives and shareholders as there is a good possibility that either our children are not interested or not qualified enough, so we need to be prepared to potentially look at other family members to sell our shares to. This process includes involving wider family members in business integration from a young age. Every year we have a family reunion for the business and we also have a Next Gen programme where we call in those with proper education aged from 15-30 to join an informal class setting with a family business professor and do developmental things.

Several initiatives are also in place to ensure those family members who do join as senior executives are the right calibre. In the shareholder's agreement it states that if you want to come in as a senior executive you have to have worked out of the company for a number of years, have a level of academic education and be at least 30 years old, though those aspiring for a position not in a leadership role are always welcome.

As for my best advice to other companies considering succession planning, the biggest hurdle that you have to cross in a family business is that people have to talk to each other. Often there are a lot of assumptions and because people have the same genetic makeup they think they understand each other. Get everything on the table even if it hurts!"

Albert, Albert and Klaas Hakvoort

### KLAAS HAKVOORT

Director and fourth generation shareholder, Hakvoort

Our yard was founded in 1919 and today my brother, Albert Jr, and I run the business having bought out our father Albert Hakvoort Sr. Back in the early 1900s there was no choice when it came to succession; your father would tell you at a certain age to start working on the yard and you would learn the trade in practice. But for me it always has been clear that I would work in our yard and I started working in the shipyard in my school holidays when I was 13 and over the years did everything from painting to metalwork to piping. My brother Albert had the same idea and joined the shipyard in 1993.

When undertaking a generational handover the money is internally loaned to the child that wants to buy shares and while the company makes money they slowly pay back their debt. When my brother and myself took over the company we did this in two steps; we first bought 49% of the shares and only after these were fully paid we bought the second 51 percent. This allowed my father proper control of the company while we were earning the funds to pay for the shares. Our father formally retired in 2014 after an active shipyard career of over 60 years.

It took us 11 years to buy and pay for the company in full, but the company takeover never influenced our financial position as funds were only flowing between family members and no banks were involved at all. The principle of not wanting to lend any money with banks has kept us alive and financially we are very conservative and our company is free of debt. If we want to invest we first earn the money and then spend it.

Looking to the next generation my son Albert (17) is 100% sure he wants to work in the shipyard and next year he will start his education to be a Naval Engineer, and my daughter Tirza (13) is not sure what she wants but if her future is in the shipyard it has my blessing and I would be proud to see her being the first female successor in the Hakvoort history. My brother has a daughter Kim (8) and she is obviously too young to determine her future right now. We will see what happens!

Today it is not easy to successfully continue a business like ours. Even if one or all of our three children want to continue the business, they also have to be capable and truly passionate about it, otherwise they will certainly fail. Even though Hakvoort is a small shipyard we still have the responsibility for approximately 100 employees and that is something we take very seriously. Training starts young and my son has already spent holiday weeks in the company to get a taste of what the shipyard work means on a daily basis.

We are now preparing to further expand the shipyard and very soon will welcome the next generation of Hakvoort yacht builders in our company. Many shipyards have been taken over by investment companies and family owned superyacht builders are becoming rare in our country. I sincerely hope we can see the proud name of Hakvoort on our sheds for decades to come.