



Intergenerational Succession in SMEs Transition  
INSIST

CASE STUDY

Parodan Engineering

Final version

Case study by

Leeds Beckett University

Leeds, 2015

---

This project has been funded with support from the European Commission.

The European Commission support for the production of this publication does not constitute endorsement of the contents which reflects the views only of the authors, and the Commission cannot be held responsible for any use which may be made of the information contained therein.





## 1. Introduction - Presentation of the Case

The case is based on the history of a family business operating in the Engineering sector of the economy. The name of the company, staff members and the names of contributors to the case study were changed at their request.

### Brief History of the Firm

Harry Wood, the owner and founder of Parodan Engineering Ltd, started his career as a maintenance fitter. After his apprenticeship he spent several years working for various manufacturing and engineering companies but, having fallen foul of redundancy on a number of occasions, he decided to set up his own business to try to establish a secure income for his family. He has owned a number of businesses and in 1984 he set up HLW Engineering with a partner. The partnership however was not successful, and in 1989 Harry left with two or three customers and set up Parodan. Harry has three sons Rob, Paul and Danny and it is an amalgam of the boys' names that forms the company's name.

Starting out on a very small scale with borrowed equipment, Harry began to build up a small but regular order book for their bespoke machinery for production lines. The customer base grew as did the orders and with the help of his wife Elizabeth, part time staff and sub-contractors they were able to supply clients with high quality machinery on time and to budget. As the company steadily grew it allowed them to purchase their own machinery, employ more staff and move to larger premises. By 1999, the company was employing 13 staff, had a full order book and again required more space. At this time the founders looked for external funds to finance the growth of the family business. As their bank was unable to offer them the full mortgage value of the property they wished to purchase, they approached Yorkshire Forward for the remaining funds to support this expansion of the business. However, in order for them to secure this funding, they needed to become a limited company, so on 27<sup>th</sup> May 1999 the company became incorporated, with Harry and his wife each holding a 50% directorship.

Since its incorporation the company has had its ups and downs, most notably through the recent economic downturn in the late 2000s. However the company survived intact and in



2012 the founders decided to retire from the business and to hand control over to the next generation.

### Main Activities

Parodan is a design and manufacturing company that produces special purpose production line machinery primarily for the Food and Drink, Automotive and Medical sectors of the economy. They have a diverse product range including robotics, ultrasonic welding, ultrasonic cutting, conveying and advance handling and control systems. Their main market is domestic business to business, with the food and beverage industry currently accounting for ~60% of their turnover. Since 2012, the new MD (Harry's son Paul) has restructured the company, appointed a board of directors, modernised production and stabilised the finances. The company vision is to be:

*'The first port of call, and preferred supplier to our present and future customers, while constantly meeting or exceeding our customers' needs and expectations of quality, service and price whilst maintaining profitability'.*

In the last three years annual turnover has doubled to £4.6 million. In addition, the workforce has grown from 11 to 27 and is now organised into distinct departments rather than a general workforce as had been the case previously. The company has also won a number of new contracts with new clients and products. Parodan has a plan for substantial growth with further expansion of capacity and a move to a new site planned in the short term.

### Ownership Structure

Whilst no longer involved with managing the company, Harry and his wife are still the majority shareholders. All three sons have worked for the company at some point and two remain fully engaged and now hold directorships in the company. During the economic downturn, both of the sons still at the company were gifted 5% of the shares by their parents as a reward for staying with the business.

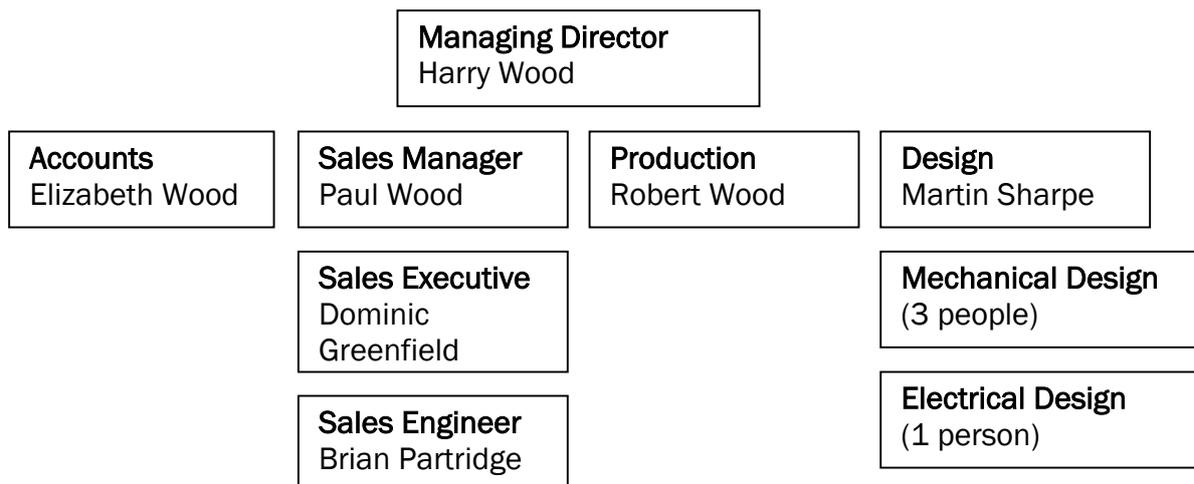


In 2012 when Harry and his wife retired, their middle son Paul became the Managing Director with their elder son Rob becoming the Production Director (although they did not actually use these titles until 2014). Harry and his wife have made provision to gradually transfer the ownership of the business by passing a further 3.5% of shares to each son in the business until a time when each son holds 40% with the parents retaining a 20% share (10% each).

### Number and Structure of Employees

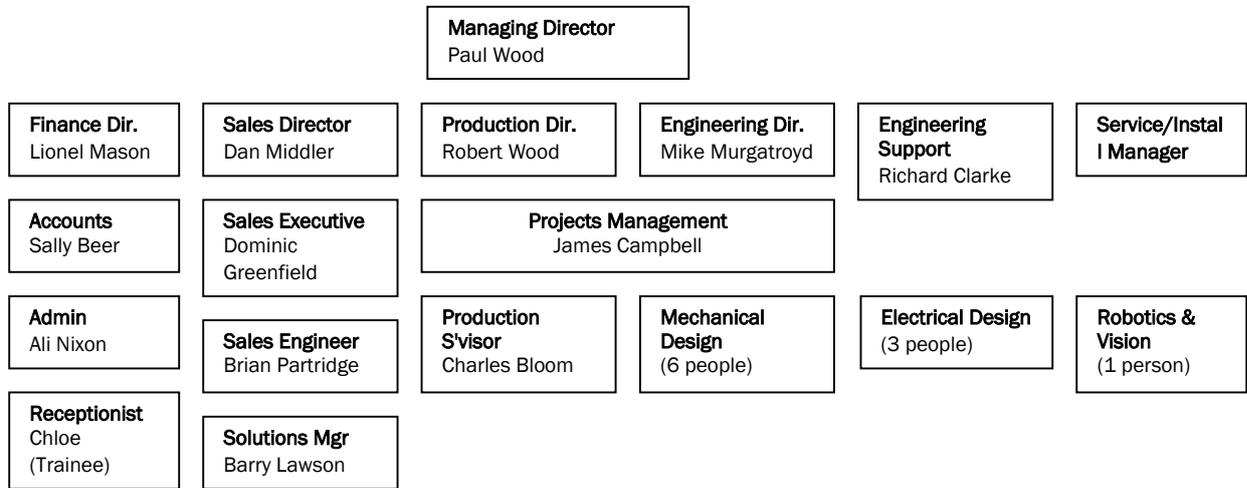
One of the key features of the company since the retirement of the founders is the restructuring of the organisation. Below is the structure charts from 2012 just before the handover and then, in contrast, the current (2015) chart.

#### Structure of Parodan - 2012





### Structure of Parodan - 2015



The current breakdown of personnel (N=27) is outlined in the table below:

Female	11%	Male	89%
Senior Managers	26%	Accounts/admin/sales	22%
Supervisors/project managers/development etc	15%	Production and Design	37%

### Main Characteristics of the Family

Name	Age	Gender	Current Position	Family Relations	Education
Harry Wood	~60s	Male	MD (1989 to 2012) Current Board Member & Shareholder (2012 - )	Father	N/A
Elizabeth Wood	~60s	Female	Accounts (1989 to 2012) Current Board Member & Shareholder (2012 - )	Mother	N/A
Rob Wood	44	Male	Production Director (2012 - )	Son	N/A
Paul Wood*	37	Male	Managing Director (2012 - )	Son	Currently studying MBA
Danny Wood	35	Male	No longer working for the company	Son	N/A

\* Research participant



## 2. The Succession Process

### Entry

Like many family businesses, Parodan and its staff were an integral part of daily life for the Wood sons as they were growing up. The elder son joined the business straight from school, with the middle son going in on weekends and after school to help out and, at some point or other, all three brothers have held full time posts at the company. All of the sons started at entry-level shop floor jobs that Paul describes as ‘the best apprenticeship you can have’. Whilst two of the brothers (Paul and Rob) have remained with the company throughout most of their working lives, both have worked their way up from the shop floor to director level over a number of years. Whilst they were always recognised as the owner’s sons, they do not feel as if they were automatically accorded additional status (although there were times when family members were allowed some preferential treatment.)

Like their father, both sons have an engineering background, with Rob starting in general fabrication and working his way up to the current Production Director position. Paul started as a machinist, moved sideways into electrical design and was involved with sales and general management before going on to become General Manager, then Sales Manager, then Operations Manager and finally Managing Director in 2014. Both sons gained hands on experience from working across the business and benefitted from coaching and mentoring by both their father and other key workers in the business. As new technology influenced the business, both sons have taught themselves new skills to apply to ensure that the business remains competitive.

### Transition

While Paul believes it was ‘my father’s dream to have all three of us in the business’, whether this was the intention or not, a clear plan for integration and succession never emerged. To some extent Harry operated a wait-and-see policy as the next generation grew up and matured; his sons being only 17, 10 and 8 when the company was founded. Both Rob and Paul have had periods of working for other companies – for their own personal development and to escape the pressures of the family business setting – but



ultimately both returned, settled into their careers and committed to a future with the family firm. Danny, the youngest son has had two distinct spells of employment at the family firm, both for relatively short periods of time and he has decided to develop his career elsewhere.

As the two older sons settled into the business, Harry started to delegate more responsibility to them. The company had a very informal organisational structure for many years with Harry taking a very visible role as leader of both the operations and strategic direction of the firm. As the business grew and the span of control widened, Harry was advised by a business consultant to develop a more formal structure and to provide opportunities for his sons to progress in the business. Over a period of time both sons moved from hourly-paid entry-level jobs to salaried management positions. A succession plan was implied but never discussed in any detail by Harry. As he reached statutory retirement age, Harry hinted at stepping back from the business but it was never openly discussed with his sons. Sometimes Rob and Paul would hear about various scenarios from third party advisors and clients but a clear plan was never formulated and communicated. Paul surmises that this reluctance by his father was due to the financial pressures of the business and the lack of clarity for its future.

### Exit

Harry's exit from the day to day management of the company was initiated by his wife, Elizabeth. For many years Elizabeth had worked with her friend (and godmother to at least one of the boys) in the administration office of Parodan. So when in February 2012 her friend announced that after 16 years service she would be retiring that October, Elizabeth also decided this would be a good time to leave the business. Given his wife's imminent retirement from the business, Harry decided that, from October, he would reduce his workload to just three days a week. However, when October came, much to the surprise of his sons and employees, Harry just stopped coming in to work after his and his wife's retirement holiday. From that point on Harry effectively handed over the responsibility for the management of the business to his two sons and has not returned to visit the company without a prior invitation.



By this time, both sons had been part of the business for approaching 20 years, so the sudden transition was not as impactful as it may have been. Rob, the eldest son had been in charge of production for many years and he became the Production Director. Paul, the middle son had been effectively managing the business for approximately five years and he assumed the Managing Director role (but not the title until it was created in 2014) after the departure of his father. It was reported that the staff viewed Paul as the leader of the company long before the parents actually retired and this made acceptance of the transition amongst the workforce much easier. Further, Paul had for a number of years taken responsibility in selecting and recruiting key appointments and this helped to cement his position as a figurehead and key leader in the business.

Harry and his wife have had minimal input into the running of the business since they departed. They rarely come into the business unless invited, for example, to attend quarterly accounts reviews, as required by the company's bank. Whilst day to day management of the business has successfully passed to the next generation, with the parents taking a 'hands off' approach, the issue of ownership transfer had been somewhat uncertain until very recently. There had been plans in place for a staged transfer of share ownership until the two sons held 80% between them, with Harry and Elizabeth retaining the remaining 20% but with no clear indication of who would receive final ownership of these shares. However, recently Harry and Elizabeth have taken legal advice and now plan that Paul and Rob will receive a staged transfer of 90% of the shares and will also inherit the remaining shares upon their parents' deaths.

### **3. Business and Family Related Goals and Performances**

Whilst still very much a family business with strongly embedded family values and goals, it is fair to say the approach adopted by Paul in his role of MD is markedly different to that of his father. Throughout the majority of his tenure, Harry took a keener interest in the production process, the people the company employed and the perception of the business



in the local community and spent little time on financial matters such as cash flow, only dedicating time to finances when there was a serious problem. However, in the last five years of his ownership this changed and the financial pressures the business faced (not least because of the economic downturn) became a huge burden on Harry and undoubtedly affected his health. Perhaps having observed his father's approach to financial management, Paul is far more commercially oriented, with ambitious growth plans and a keen eye for financial details that can make a significant difference to the bottom line performance of the company. Where Harry valued informality in the workplace, Paul values structure, role clarity and high levels of performance. Paul notes that:

'We are making that shift from owner-led and managed to being an enterprise with a formal structure, reporting and processes. Once we've got that under control the net profits will increase and we can expand further'.

Since Paul formally took over in 2012, Dominic Greenfield – for many years a commission-only sales rep for Parodan – has acted as an informal mentor, to help him to achieve his business goals. Dominic also encouraged Paul to undertake his MBA and formalise his business learning and development. As a result, under Paul, the company has developed a much more formal structure with clearer lines of reporting and responsibility. Further, he has made a number of key appointments including a respected company accountant, Lionel Mason, being employed on a part-time basis as the Finance Director, plus the formal appointment of Dominic to Sales Director. Further, both these roleholders are now company directors and, as such, hold positions on the board and support strategic decision making.

Whilst there are some differences in approach between Harry and Paul there are also marked similarities. Both make use of external mentors and consultants, seeking out the advice and guidance needed to take the company forward. Further, both use networks and seek out funding and other opportunities available to small businesses. For example Harry used Yorkshire Enterprise funding to fund growth in the early days of the business and Rob uses other initiatives such as apprenticeships and Knowledge Transfer partnerships (a



government-funded initiative to encourage collaboration between businesses and universities in the UK).

#### 4. Dynamics of the Family Business

Parodan Engineering was started primarily to provide security and a future for the Wood Family. Harry was very much the head of the family business with his wife Elizabeth playing a key role in development and administration of the company and ensuring things ran smoothly both at work and at home. Paul recalls that as a child the sons saw the company staff as 'part of the family', with their father being head of the family and their mother being the 'mother hen' who looked after all the staff. Even when the company was incorporated and each Wood parent owned 50% of the business, the company was always viewed as 'their dad's' by both the sons and the employees.

As with many family businesses, as the company grew the Woods tended to employ friends and family members to the payroll - most especially those in need (for example employing friends who had been made redundant or their son's wife etc). Whilst this sometimes led to a mismatch between the skills required and the skills available in the business, it did create a very loyal workforce with low staff turnover and strong morale.

Further, in times of hardship, such as during the recession, the Wood parents and Paul all put personal resources into the business to keep it going and avoid reducing staff numbers. Indeed, the parents invested their home and pensions against the business to ensure it survived for the next generation. These experiences have helped to shape the values and priorities of the next generation and Paul has resolved to put the business on a firm financial footing. In 2014 he was able to renegotiate the company's banking arrangements to release his parents' equity from the firm with the borrowing now being against the business rather than their personal assets. In fact, there is now a joint and several guarantee in place for both Paul and Rob, which was necessary to fund their increased



requirement for working capital, and which has ultimately led to a 115% increase in growth over the past 12 months.

Given that the Woods have three sons who have all worked within the family business there was, and to some extent still is, a degree of complexity in the interpersonal relationships both between the brothers and with their father. Whilst all three brothers have at some point taken jobs elsewhere to both experience working outside of the family business and to have some time and space outside the family, two brothers have returned to play a key role in the generational transfer and sustainability of Parodan.

Paul saw himself as his father's natural successor and was keen to assume more responsibility and control in the business. During his interview he reported that as he had grown up there had been disagreements between father and son about the direction and pace of the strategic development of the business and the type and level of investments the company should make. He noted that, in the later years 'it felt like there were two businesses at times, one that was my dad's and another that was mine'. Many of these tensions have dissipated now that Harry has stepped back from the management of the business and Paul values the times when his parents visit the business with mum bringing in home-made cake and having a chat with the workforce and dad talking over business matters with his sons. That said, the two still disagree on a number of issues for example Harry firmly believes that in business some people are born lucky whilst Paul is more of a pragmatist and believes you make your own luck!

Whilst Paul is the middle son, he has a steady relationship with his elder brother Rob and indeed was instrumental in Rob gaining his present title as Production Director in order to match his own director level title. However, as with most relationships between brothers, there have been disagreements and some elements of sibling rivalry over the years that at times have been exacerbated by a lack of clarity in relation to roles and responsibilities and the business strategy in the past. Whilst they now work productively together - recently even establishing another start-up firm together to develop a further niche in the market - there



is still a degree of disparity between the level of contribution and expertise they bring to the company that has not been resolved.

For example, Paul has a very clear vision for the company based on increasing capacity and profitability. He is keen to ensure people are hired for their skills and abilities and not just because of their relationship to the family. He estimates that the new business has a potential turnover of upwards of £10 million per annum given the development of high-value / high-margin products and, as such, he needs to ensure he has the right people in place to realise the ambitious growth plans. He has already added external appointments to the Board and is keen to add an operations director in the near future, most specifically to support his own role. Similarly, when the finances are more stable Paul intends to introduce a profit share scheme, primarily for board members but with a possibility to extend this to the workforce. Whilst Rob has a position on the Board and can vote on these issues, it is ultimately Paul that is formulating the ideas and guiding the strategic direction of the company.

That said, and despite these radical changes to the management of the business, Parodan remains at heart a family business with the two brothers striving together for its future success. Whilst neither has made any definitive plans for transition to the next generation, they have, in light of their parents' recent ownership decision, put in place a shareholder protection plan which transfers shares to one another in the event of one of their deaths and which prevents the shares transferring to their immediate family.

## 5. Conclusion and lessons

- Founding a business can provide an alternative for people at risk of precarious employment in the labour market.
- Working in the business provides a learning environment for the next generation to find what works well and not so well from different perspectives
- Management succession can be largely emergent and organic rather than planned and communicated in a systematic way



- The culture of the business is shaped by family members who may have different values and priorities from one generation to the next
- Recruitment and retention practices can lead to a loyal and engaged workforce that may lack the skills and competencies required to take the firm to the next level
- Family firms can benefit extensively from the support provided by external stakeholders such as mentors and those providing external finance, as well as local business support networks.
- Ownership issues can remain uncertain long after management succession issues are resolved

