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October 2017

Pitfalls to consider in family business succession

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We have been hearing it for decades: 30 per cent of family firms survive to the second generation and only 10 per cent survive to the third generation. This statistic is generally cited without context, implying that family firms are the business organizations that are most likely to fail, but that assumption is incorrect. We know that family businesses facing succession are successful to begin with. Otherwise, they would not have been in business for so long, waiting for the next generation to take over.

According to Industry Canada, 85 per cent of businesses that enter the marketplace survive one full year, 70 per cent survive for two years and 51 per cent survive for five years. Given that a generation is considered to be 25 years, one could argue that family firms enjoy favourable success rates compared to non-family firms.

So why do family businesses run into problems upon succession? Over the past thirty years, various academic institutions have conducted considerable research, looking at this issue. Most notable is the work of De Massis, Chua and Chrisman: *Factors Preventing Intra-Family Succesion* (2008). Let's take a look at some of the issues raised in their research.

The founder's personal sense of attachment

Business founders generally view the business they built as an extension of themselves, as their identity is closely tied to the business. The inability of the founder to let go causes a block in management development and succession. We have all seen the 80-year-old founder that is still active in the day-to-day decisions of the business, even after the 55-year-old son or daughter has taken over as president/CEO. This business may be considered a second generation business, but the chances of this business advancing to the third generation are slim to none, as the current president/CEO is not being given the opportunity to fully develop their management skills and relationships with key suppliers or customers. This void in management will be particularly evident when the founder dies.

Conflicts among family members

Although it may be hard to achieve, conflict among family members must be kept to a minimum, as family harmony is one of the key factors that promotes successful intra-family succession. It is important to delineate between conflicts that arise from family business dynamics versus conflicts arising from regular family dynamics. Conflicts arising from family business dynamics can be mitigated through more formal firm governance mechanisms such as regular family business meetings, in which the financial results of the business, salaries/duties of family employees and key strategic decisions are disclosed to all family members.

Some research indicates that conflicts between siblings are more likely to occur when siblings enter the family business at different times. For example, when an older sibling enters the business earlier (in terms of years) than a younger sibling, this may cause the older sibling to feel more empowered in regard to the family business. One strategy to mitigate this would be to bring siblings into the business at the same time, if possible. Another strategy is to clearly define the roles and duties of each sibling.

Conflicts arising from regular family dynamics should be kept to a minimum (though this is easier said than done), as any conflicts among family members may negatively impact the success of an intra-family succession. Such conflict may result in a family member not approving the appointment of another family member as the successor, regardless of ability.

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Business size/performance

There is strong evidence that suggests a positive association between the size/performance of the business and the willingness of children (offspring) to join the family firm. This is of particular concern for second generation family firms. Many second-generation presidents/CEOs are in family business preservation mode, in that they are more risk adverse (in relation to competitors), and they do not want to destroy the business their parent(s) built. In the long-run, this may manifest itself in a family business that has not made the appropriate strategic decisions and investments, negatively affecting business performance, which may reduce the desire/motivation of the offspring to enter the business.

In summary, the aim of this article is to provide a different perspective on intra-family succession, in order to facilitate more insightful thought among family firm clients. The issues discussed above are just some of the factors that may contribute to a family business not advancing to the next generation. Fortunately, many of these factors can be mitigated well before an intended and/or pending intra-family succession of the business.

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