

TRANSFER OF OWNER- AND LEADERSHIPSHIP WITHIN THE FAMILY – hampering factors

Based on:

- An empirical study: 144 Swedish family businesses
- All reported on an actual transfer of ownership to the next generation and within the family.
- 128 transfers was made during the lifetime of the older generation (6 intestate inheritances and 10 sales to an outsider)
- Respondents: Majority shareholders, appr. 1/3 from the older generation and 2/3 from the junior.

CLOSE STAKEHOLDERS

1. Family members

The interests of family members:

- Pecuniary value of the shares
- Career opportunity
- Social and cultural identity

- Of the respondents (130), 79,2 % found it important or very important that the family approve of a new shareholder.

2. Co-owners

The interests of co-owners in case of a succession:

- have invested money and expect a financial return
- gained shares through a gift and expect more
- appr. 1/3 of co-owners had expressed an opinion on who should be the new majority shareholder (in the younger generation)

3. Members of the management team

The interests of members of the management team:

- Have invested time and work leading the business
- Wish to continue and climb the ladder
- 75 % of the respondents (130) found it important that the members of the management team approve of the new shareholder
- The majority shareholder and leader in the older generation is assumed to be aware of the interests of the close stakeholders

Non-close stakeholders

- a) Customers or suppliers (5,6 %)
- b) Cooperating businesses or competitors (4.2 %)
- c) Creditors (5.6 %)
- d) Local and regional authorities (1,4 %)

Percentage expressed opinions on who should be the next majority shareholder (16,8 % all together)

Albeit few, they are still there – also in the mind of the incumbent!

Stakeholder theory

The members of the management team are also the managers of the stakeholders in a running business

In case of a succession in a family business, we claim that:

1. The majority owner and leader is the manager of the close stakeholders.
2. Other members of the management team can be the managers of the non-close stakeholders

However, the only one who can map the whole scenario of stakeholders is presumably the majority shareholder and leader in the older generation

S/he will face, at least implicitly, a pressure from:

- a) Close stakeholders, e.g. children who do not become new shareholders and co-owners/members of management
- b) Non-close stakeholders, e.g. tax authorities and cunning competitors

An effective succession of ownership of shares

Besides the pressure from stakeholders, an incumbent will be facing all the requirements for an effective succession:

- a) New majority owner (and leader)
- b) Compensatory expectations
- c) Total cost do not hamper risk willingness and capacity to make investments
- d) All close stakeholders can at least accept the outcome
- e) The older generation can function as a mentor – 43 % of the respondents (95) had a mentor supporting them in their new role

What can and should a consultant do?

- a) An explanatory function dealing with:
- The incumbents own reluctance
 - The anxieties of the younger generation (e.g. 20 % of 95 feared not being able to cope)
 - Demands from co-owners and members of the management team
 - Expectations from family members and future family involvement
 - Impatient customers, suppliers, cooperating businesses and competitors
 - The various roles of close stakeholders afterwards

b) On legal matters

A consultant has a more important role concerning:

- Suspicious creditors
- Public law issues and local and regional authorities
- Tax and civil law related matters and national authorities, e.g. the method used to transfer ownership of shares
- Ownership structure and protection of ownership

A more pivotal function concerning

- Explaining why an intestate inheritance should be avoided (Only 6/144.)
- Partly on planning for an effective succession
- Pushing for the incumbent becoming a mentor for the new majority shareholder/leader (Of the responding majority shareholders (54) in the younger generation who lacked a mentor, almost 1/3 (27,8 %) felt that they needed such guidance)
- If the older generation wish to engage in new business adventures

A legislative approach

- Obligate the accountant to initiate and plan a succession of ownership of shares
- Obligate the board to initiate and plan for a transfer of leadership
- Together they can form a task force for the whole concept
- Obviously: Must be optional rules (not mandatory)
- The majority shareholder/leader is the only one who can map the whole picture and must, thus, have an opportunity to initiate and plan a succession, with or without delegation to a family (family council) or business entity.