

# 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.