

Ownership transfer in family businesses prompted by tax reform

by

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English summary

Family businesses have great social and economic importance in Sweden. A large number of these businesses are owned and run by people born in the 1940s. Thus family members owning these businesses will transfer their ownership to the next generation in the near future. With ownership transfer, we refer to a process by which a company's ownership is conveyed from present owners to their children or to employees, external entrepreneurs or companies. This means that the ownership transfer can occur via inheritance or gift or sale, and it is most often a complex and time-consuming process.

CeFEO at Jönköping International Business School was commissioned by the Confederation of Swedish Enterprise to conduct an in-depth study of the ownership transfer process. The study focused on the influence of the abolition of gift, inheritance and wealth taxes in such process. Gift, inheritance and wealth taxes were abolished by the Swedish government in 2004; the government wanted to stimulate and thereby increase the volume of successful ownership transfers. Ownership transfer is a diverse development process in family businesses that is about continuous dialogue, requires many different preparations and complex decisions, which are needed in order to arrive at the best options for ownership transfer.

This book focuses solely on ownership transfer processes *in family businesses* (from parents to children). It illustrates how the abolition of gift, inheritance and wealth taxes specifically influences ownership transfer in the studied family businesses. One important reason for this study is that there are no studies that describe and analyze the effect of the abolition of the mentioned taxes on ownership transfer processes. The book presents a number of issues, problems and solutions for the ownership transfer process in light of the abolition of the taxes. One aim of this book is thereby to provide support for outgoing and incoming owners and leaders, and family business advisors in ownership transfers in relation to the abolition of those taxes. It is also directed to policy makers dealing with ownership issues.

The book is based on a field study containing 30 telephone interviews with family business owners, and five in-depth case studies of ownership transfer processes in family businesses. All five cases describe ownership transfers from first to second generation. The studied organizations show 10 different types of ownership transfer solutions. These solutions combine different components e.g. sales within the family, external sales, gift and inheritance. Gift is the most important component of such solutions.

The five cases differ greatly with respect to personal, social, economic, legal and tax aspects that are prominent in ownership transfer processes. They also differ in the interaction between family members and the emotions that affect actions and decisions, and as regards the various technical aspects of solutions. The cases highlight different solutions and ways to carry out the smoothest possible ownership transfer. Three of these five cases provide successful examples of vital components in their ownership transfer solution. The other two cases describe the variety of emotional, legal and structural problems that impede and/or delay ownership transfers and thus risk the survival of the family businesses.

The book demonstrates that the abolition of gift, inheritance and wealth taxes motivate family businesses to work more actively and purposefully with their ownership transfer. This situation is particularly so in the cases in which companies had already started discussing ownership transfer within their family, and/or with friends or advisers before the

abolition of taxes was made. The case studies show that the abolition of taxes stimulates families to go through an ownership transfer, partly because they can increase their wealth with significantly less tax consequences.

One main conclusion of the study is that ownership transfer is a successive process that is realized over a period of time. Ownership results as a combination of new and former owners who gradually establish new forms of cooperation and jointly renew the corporate strategy. As a result, ownership transfer is a central component in the overall succession, including also the change of leaders.

To conclude, the book presents recommendations for practitioners in order to carry out an ownership transfer around six key themes: goals of ownership transfer, ownership stability, financial and personal stability, fairness, positive emotions and positive emotional affiliation, and change of ownership. In relation to goals, the older generation has to define the overall goals of the ownership transfer process, first for themselves and then in dialogue with children and advisers. In relation to ownership stability, family members must foster network and communication mechanisms among new and former owners in order to ensure the survival of the family business. Good ownership solutions are built by considering ownership structure, tax regulations, gifts and strategy renewal.

In relation to fairness, family members need to find a balance among owners' will and vision and the future owners' ideas and vision. Owners have to determine the company actual value, define fair ownership shares, and integrate ownership agreements. In relation to positive feelings and emotional affinity, existing owners shall create good atmosphere around ownership transfer and confirm positively new owners. This confirmation helps newcomers develop their maximum capacity as owners. A change of CEO in the family business is a time-consuming process. The existing CEO transfers to the newcomer CEO much more than silent and articulated knowledge. The new CEO must gain formal responsibility for operations and employees as well as the moral responsibility for the company. In family businesses, the company is as an extension of everything that the family represents and believes.