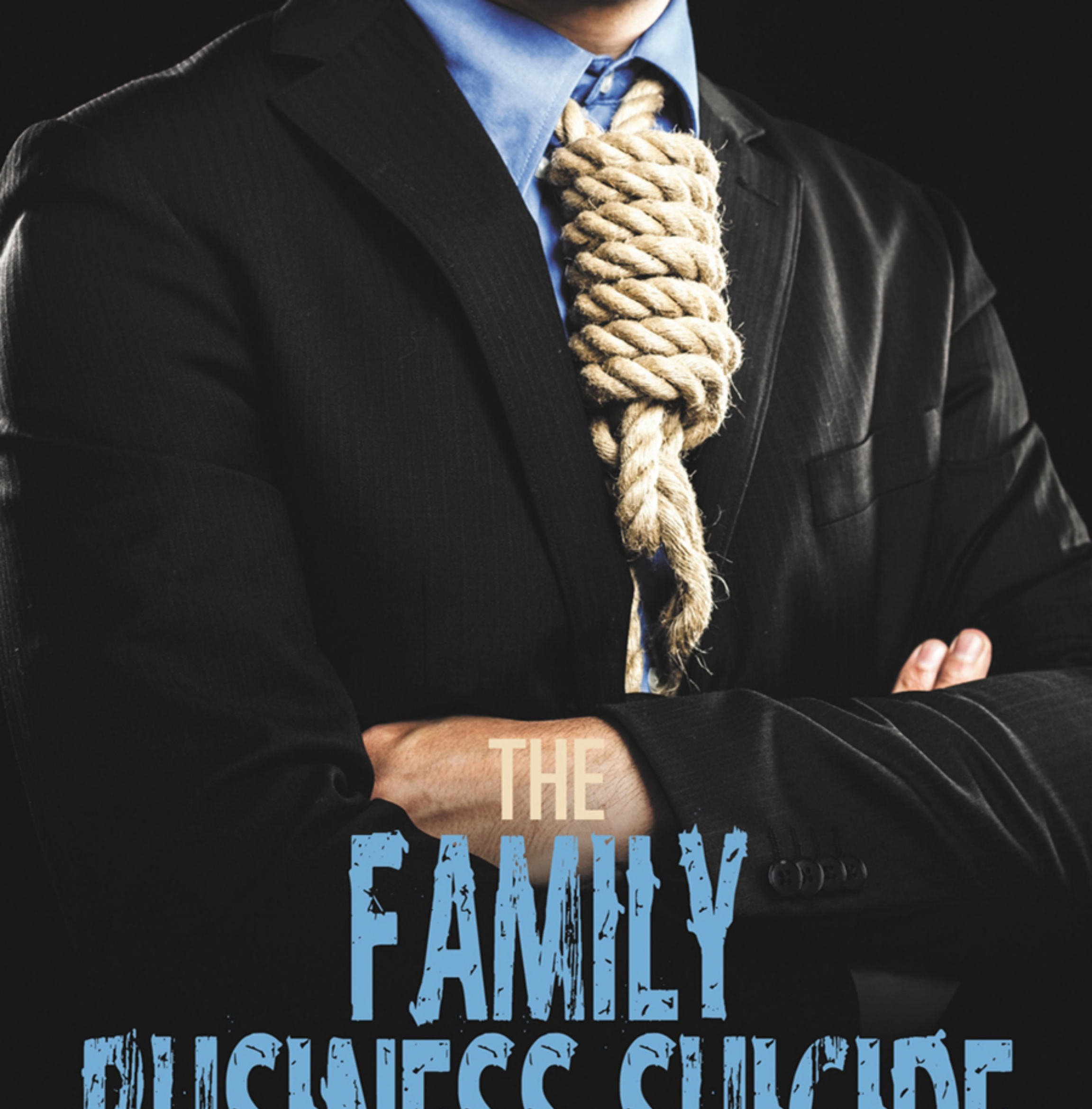

THE FAMILY BUSINESS SUICIDE PREVENTION GUIDE

DR MARC DUSSAULT

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SPELLING CONVENTION

This edition has been edited with Australian spelling and typographic conventions including the use of s rather than z for words such as organization and specialization.

GENDER NEUTRALITY

The author has made every attempt to render the text gender neutral, however in some instances he has used opposite genders for grammatical expediency.

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TO GAETANO MARTINEZ

One of my many mentors who taught me the strength and power
of family business management and how to execute
a successful succession for the next (second) generation.
His company recently celebrated its 50th business anniversary.

ACKNOWLEDGMENTS

This book's genesis was as a Ph.D. working paper to highlight the comparisons between family and non-family firm succession processes. At the time, in the mid 1990s, this was innovative research and yet today remains a unique perspective on the topic.

The second incarnation of this book was developed as a how-to manual for small businesses. Promoted as an eBook and used with my numerous business coaching and mentoring clients, it helped hundreds of small businesses avoid the most common mistakes largely by having a platform to address and discuss the issue.

This edition has been expanded to include appendices for the American, Canadian and Australian markets since each has its own set of challenges. In addition to the interesting statistics on millionaires and billionaires, we have added the most recent statistics on family business successes and failures as well as useful resource links for further assistance. Although I offer clients coaching and mentoring services – local organisations are valuable sources of information, references and guidance.

I would like to acknowledge Robert Fletcher at Strategic Publishing – who understood my desire to gain a truly global platform for my message. His commitment to this project was paramount to you holding this book in your hand.

I would also like to note people who helped make this book a reality. First, one of my Ph.D. professors Dr. Bakr Ibrahim at Concordia University, in Montreal Canada. Author of one of the best family business textbooks, he actively supported my family business focused academic initiatives and this book is the most public testament to his enthusiasm and encouragement.

Ursula Pierre who researched the many statistics and resource links. She also painstakingly proofread the final manuscript to ensure the least amount of typographical errors – any you find are my errors, not hers.

This book was revised and updated following countless hours coaching and mentoring family business owners, founders and heirs. Their blood sweat and tears can be felt in-between-the-lines and for that I thank them sincerely. Even though your secrets are safe with me, your struggles, victories and defeats scream throughout the pages loud and clear for others to hear.

We have included a bonus section – a transcript of a live consultation that was recorded for my family business clients – How to market your family business. It deals with the pros and cons of the perceptions of family businesses within the commercial marketplace. It is included because it addresses many of the negative stereotypes synonymous with firms that avoid or deny the importance of the succession process – those firms that are flirting with business suicide.

I hope not only that you will enjoy reading this book, but more importantly that you will undertake as many of the steps as you can to prevent your family business from committing suicide. I know the title is provocative and I chose it on purpose because I want to save as many family businesses as I can. The only cure is prevention and I hope this book serves as your very own, personal intervention.

Onward and upward!

Dr Marc Dussault
The Exponential Growth Strategist
Mentor | Entrepreneur | Speaker | Author

P.S.
Thank you Monica for your generous support, understanding and encouragement throughout the countless hours of research, study, writing, editing and proof reading revisions involved in producing an original work of this magnitude.

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INTRODUCTION

> *"To refuse your son or daughter the acquisition of your business not only violates their birthright, it is an impractical business decision."[1]*

Family owned and managed firms represent the most prevalent form of business organisation in the world today.[2] Articles on family business make various estimates about the number of family controlled companies, but even the most conservative estimates put the proportion of all worldwide family owned or managed business enterprises between 65 and 80 percent.[3] A 1996 study determined that there are more than 12 million family businesses in the United States, having a cumulative net worth third only to the non-family firms in the U.S. and Japan.[4]

In Australia, 27 percent of businesses listed on the Australian Stock Exchange are family controlled and they have an estimated net worth of around $3.6 Trillion.[5]

It is estimated that approximately 95 percent of all American companies are small businesses and that 95 percent of these firms are family owned.[6] These small business firms generate sales of up to $100 million. They employ approximately half of all American workers, some 44 million people and account for 40 to 60 percent of the U.S. Gross National Product.[7] The majority of US corporations are family owned; only 2 percent of these firms are controlled by non-family stockholders and managers. Although many family businesses are small, a substantial proportion of them are major corporations, including 175 of the Fortune 500. Moreover, entrepreneurial start-ups increased from 90,000 in 1951 to 900,000 in 1984[8] and in the last decade or so have grown 1,400 percent from 40 years ago.[9]

Australian studies show that family firms dominate the market, making up 80 percent of all Australian business. They also represent the majority of Australian employers and are the major contributor to the gross domestic product.[10]

In Europe, family firms dominate the small and medium-sized firms and, in some countries, they also dominate the majority of larger firms.[11] In Asia, the form of family control varies across nations and cultures, but family firms hold dominant positions in all of the most developed economies except China.[12] In Latin America, grupos, built and controlled by families, are the primaryform of private ownership in most industrial sectors.[13]

The average life expectancy of family owned or controlled organisations is only 24 years and only three out of ten of these firms survive into the second generation.[14] It is not a coincidence that this figure corresponds directly to the birth of the family firm and the death of the firm's founder.[15] Furthermore, only half of the firms that survive into the second generation continue to survive into the third generation.[16] Of the 70 percent that do not survive into the second generation, researchers echo the sentiment that many of these firms could have survived had the owner/manager possessed a better understanding of the key issues in managing change. Had they been better equipped with a strategy to handle change, adaptation and continuity more effectively, their chances for a successful transition would have been greatly enhanced.

CHAPTER ONE

CORPORATE SUCCESSION VERSUS FAMILY BUSINESS SUCCESSION

THE PROCESS	
CORPORATE FIRMS	**FAMILY FIRMS**
Planned	Unplanned
Rational / Analytical	Irrational / Emotional
Rite of Passage	Critical Event Decision (Life & Death)
Renewal	Discontinuity
Relatively Minor Issue	Often a Major Issue

FIGURE 1 – THE PROCESS

Corporate succession research describes succession as a planned, rational, analytical process.[17] Human resource professionals within the firm establish a documented procedural guideline to inform both the participants and other employees. This access to information allows individuals (potential successors) to plan and prepare for the sequential steps of the process and decide whether it is a path they wish to take. It can be argued that such a methodology, in and of itself, will enlarge the candidate pool.

The "common sense" view presents corporate succession as a rite of passage for an individual, which is directed at firm renewal[18] and personal development, when ascension to the board of directors is probable. Retirement from the firm may also be a desirable alternative if it invites offers of directorships on prestigious boards of other corporations and visibility within the elite social arena.

Family business research reveals succession as largely unplanned.[19] Most studies reveal that the majority of family firms report not having a succession plan in place, let alone one that is documented and communicated to organisation and family members. Forty-four percent of those polled in a survey of over 1,000 family businesses, conducted by Massachusetts Mutual Insurance Company, said they had a formal succession plan - up from 28 percent in the previous year's poll. However, that still means that over half of all family business owners do not have a succession plan.[20] In many cases, within-family heirs are largely unaware of the firm's precise financial position, i.e. leverage, equity and non-operational investments[21] and are consequently ill-informed to lead the firm.

> *"Smooth Succession" is an oxymoron… Succession in a family business is probably the most complex management challenge anybody faces."*[22]

Family firm succession is reported to be irrational, emotional and discontinuous in nature.[23] Rather than a rite of passage, family firm succession is often a critical event decision based on the health of a reluctant founder to hand over the reigns to a successor. Discontinuity arises as a result of the founder's reluctance to train and foster growth in their potential successor(s). The emotional element is fueled by both the strong presence and will of the entrepreneur and the high degree of personal identity and self-presentation invested in, or associated to, the venture. The perceived inseparability of the company from the person is at the base of this phenomenon.[24]

Discontinuity is a by-product of the founder's reluctance to train a successor until it is absolutely necessary. In many instances, such training does not occur until the death or removal of the founder due to poor health. Therefore there tends to be no overlap of responsibilities, or transfer of contacts or knowledge between the founder and their successor.[25]

When a business is only the projected shadow of its owner, the value of such a business may depreciate sharply with the demise of the sole owner or managing principal stockholder. In fact, earnings may drop even more sharply in service organisations when a large part of the earnings are directly traceable to the superior personal services rendered by the owner.[26]

INITIATION AND OUTCOME	
CORPORATE FIRMS	**FAMILY FIRMS**
Overall Strategy Outcome	Individual Strategy (Obligation)
Acceptance / Expectation	Resistance from the Incumbent
Company Driven	Individually Resisted

FIGURE 2 – INITIATION AND OUTCOME

Corporate succession is reported to be part and parcel of an overall strategic plan.[27] It is both accepted and expected as an element of the "corporate game". It is company driven in that it is the organisation as an entity that manages and foresees the eventuality of its leadership change.[28] Even though there are (many) political aspects to the process that influence corporate succession to varying extents, it nonetheless originates from the organisational entity and exists without question and contestation from its members or CEO.

Family firm research reveals that succession, for the most part, is within the founder's tasks and responsibilities.[29] The high centrality and power of the founder may overwhelm the organisational culture and hence the identity of an entity void without the entrepreneur. Consequently, the "organisational" culture, intuitively apparent in large organisations, is less evident in smaller firms. As a result succession is not born out of the collective psyche of the firm and thus often originates from the founder.

If founders are reluctant to extract themselves from the firm as a result of denying their own mortality,[30] the process suffers greatly. The greater the CEO's resistance, the worse the potential impact on the firm. Since the ultimate objective of succession planning is the founder's exclusion from the firm, detrimental effects of not planning and implementing a succession plan appear inconsequential to them. They will be excluded if succession is successful - hence the alternative can't be much worse. In their mind, they have nothing to gain and everything to lose, by participating proactively in the process.[31]

LEVELS OF ANALYSIS	
CORPORATE FIRMS	FAMILY FIRMS
Behavior is Role Dependent	Behavior is Person Dependent
Individual Event	Family/Group Event
Discrete Process	Gradual Process

FIGURE 3 - LEVELS OF ANALYSIS

As a planned process, corporate succession is usually a continuous yet discrete process, anticipated and executed systematically.[32]

Behaviour in corporate firms is largely role dependent. Roles are assigned to each position and the incumbent is made to adhere to them, within certain prescriptive limits. Succession is no exception. An incumbent is placed in a position and is expected to fulfill certain requirements. In turn, they expect compensation and the opportunity to further their personal development by "climbing the corporate ladder".

Climbing the corporate ladder is permitted and facilitated by the succession process. As a participant, the incumbent will be a potential benefactor or victim of the process. As a willing player, they agree to play by the rules set forth and enforced by the organisation. A similarity of family and non-family firms is the intuitively obvious centrality (entrenchment) of the incumbent. The more roles played by the incumbent (President, CEO, chair, member of the board of directors/ family counsel), the more powerful they are and hence the more important the succession outcome.[33]

The succession process within the corporate environment is discrete, in that it is generally clearly defined by an explicitly detailed procedural protocol. It is designed to be fair, objective, methodical and uneventful. If successful, it is a minor issue in the activities of the firm, crisis situations notwithstanding.

As previously mentioned, family business succession is often person rather than role dependent.[34] Family firms are often run according to the owner/manager's decisions whereby they assign and delegates task, responsibilities and authority as they see fit.

The founder/entrepreneur's high centrality and dominance often overwhelms the process. Moreover, due to the presence of the family within the process, succession is more of a group event than an individual one.[35] In a family firm, immediate family members become active participants, whereas in a corporate firm, the incumbent faces the process alone with their management team.

Family business succession, in contrast with its corporate counterpart, is a gradual process, associated with life cycle stages of the participants, rather than a discretely defined process. Furthermore, these stages are person rather than role dependent.[36]

OWNERSHIP	
CORPORATE FIRMS	FAMILY FIRMS
Ownership Unimportant	Ownership Very Important
Board of Directors *(Formal Governance)*	Family Counsel *(Informal Governance)*
What the Company Needs	What the Incumbent Wants
Executive Longevity Not Researched With respect To Succession	Several Life Cycle Models And Theories Developed

FIGURE 4 - OWNERSHIP

In corporate succession, the CEO's ownership stake is unimportant. As an agent to the shareholders, the CEO is obligated (to varying degrees) to follow company procedure, enforceable by a Board of Directors' resolution or intervention. The formality of corporate governance is supported by the legal system and consequently carries a great deal of influence.

The company's needs underlie corporate succession planning. As previously stated, the initiator and regulator is the organisational entity, which, by extension, wishes to protect itself, sustain current activity levels and/or grow. Its needs, fueled by the shareholder's desire for wealth generation and growth, remain at the forefront of its objectives. This idealistic objective can be and often is, derailed by agency problems where powerful vested interests influence the process.

Ownership of family firms is of significant importance to succession. A unique owner's control is absolute and incontestable. However, if the CEO is not sole owner, the issue remains important but now its importance extends beyond the individual to include other owners and/or partners. The relationship becomes a major factor as does the balance of power and the interrelationship of family, ownership and management systems as presented by Lansberg.[37]

Such issues are not exclusive to family firms. Corporate firms have the same criteria, however, the difference lies in the (in)formality of the governance system. Most family firms are governed by informal governance structures. Little or no documentation exists. Rules, regulations and guidelines are discussed informally and change over time. The governors' roles are not clearly spelled out or understood by the role players themselves, nor are the governors clearly identified to, or acknowledged by, outside parties.[38]

Executive longevity and its relationship to corporate succession has not been studied, whereas extensive family firm research exists which explores personal life cycle stages and models. Corporate succession research would benefit greatly from further research in this area.

SUCCESSORS	
CORPORATE FIRMS	**FAMILY FIRMS**
Insiders Versus Outsiders The Firm Temporal Dependence Organisational Culture Dependent Insiders Favored	Insiders Versus Outsiders The Family Dichotomous Organisational Culture Independent Insiders Not Favored but Expected
Incumbents Attractive to Other Firms	Incumbents Usually Retire and are Unattractive to Other Firms
Successors Have Similar Career Specialization	Successor Career Specialization Proposed but not Studied

FIGURE 5 – SUCCESSORS

Corporate succession research abounds with discussions of insider versus outsider succession outcome comparisons.[39] Corporate literature reveals that insider and outsider categorisations are dependent on the incumbent's tenure in the firm.[40] Firm tenure is defined as the number of years the incumbent has worked within the organisation prior to appointment as CEO. Researchers have only recently begun to investigate corporate culture "ingroups" and "outgroups" which may or may not be tenure independent.[41]

Research findings appear to be slightly more favorable toward the corporate "insider" successors versus "outsider" successors. Furthermore, age and titles held[42] were found to be significant variables for insiders, whereas education was found to be more important for outsiders.[43] It has been found that stockholder reactions reflect favoritism for insider appointments in larger firms.[44] Moreover, if a predecessor's performance was satisfactory, he was more likely to stay on in some other capacity.

The insider/outsider debate is made possible as outsiders are attracted to join the corporate firm, which is less likely with family firms. Studies indicate that in the past, a successor more often than not resembled the person they replaced in educational/and or experiential expertise, knowledge and/or ability. Studies show this to be slowly changing.[45] Diversification and globalisation are said to be fueling the generalist versus specialist paradigms of management.[46]

In contrast to corporate firms, the insider versus outsider debate is non-existent in family business research, as successors are either family or non-family members. For many researchers succession to a non-family member renders the firm, upon successful transfer, to the non-family, corporate category. Hence, this first succession would be a family firm succession, whereas the following succession would not. Exceptions do exist: The incumbent is not a member of the current "family", but intends to and has the power to, transfer control to their offspring; the family maintains control of the firm and appoints an agent CEO to run the firm while maintaining a majority shareholding. One must be careful not to be too facile with these circumstances. Each situation, in itself, is a process of succession that occurred in a family business.

Since large firms control more resources, the power and privileges of leadership are greater. Hence, more managers are interested in succeeding to the top position.[47] In addition, since heads of larger firms have greater visibility, they are more likely to receive offers from other firms.[48]

The unattractiveness of long-tenured (small business) family firm owners to other firms significantly reduces alternative career paths available to the family firm owner. In turn, top management positions in family firms are less attractive to ambitious managers who aspire to own and control a firm.

Since family firm succession is, by definition, limited to family members, successor specialisation has not been largely studied. Studies reveal that personal characteristics can increase a potential heir's likelihood of success more than their educational or experiential knowledge, skills or aptitudes.[49]

FIRM PERFORMANCE	
CORPORATE FIRMS	**FAMILY FIRMS**
Prior Firm Performance Studied	Prior Firm Performance Not Studied
Succession Announcements in "Good" Performance Periods	Succession Announcements Few- Not Studied

FIGURE 6 – FIRM PERFORMANCE

Corporate firms, although not exclusively publicly traded entities, have allowed researchers to study the firm's performance before, during and following the succession announcement. This has not been possible with family firms as most are not publicly traded and are understandably secretive about their financial affairs. Furthermore, family firms generally announce neither succession intentions nor the event itself. It has also been found that corporate succession announcements, in general, occur in periods of good rather than poor performance periods.[50]