Trends in the Family Business Environment

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For over twenty years, **Aron Pervin** has been recognized as a leader in the field of family-owned business management. He is an organizational change specialist, a business family counsellor, family business continuity advisor, a certified management consultant and owner of Pervin Family Business Advisors Inc. (formerly Pervin & Company). As a consultant, his collaborative interventions have focused on improving the overall continuity planning process while managing relationships, organization, co-existence, communication and governance in the business family, family business and accidental partnership – simply, he helps preserve and improve business family life. He is also an educator and supervisor for a number of associations, individual consultants and professional firms.

Aron works internationally with a diverse business family client base in all industries. By example, the number of family participants has ranged from two to thirty-eight people who own and/or work in businesses generating revenues from $1 million to over $1 billion. His current counselling/work activities concentrate on inter-generational, sibling and cousin partnerships in multi-family enterprises, next generation career development, dealing with, and valuing, the differences that partners contribute to the enterprise, family philanthropy and overall family, shareholder and corporate governance systems and structures.

A science graduate of McGill University, Aron has taken additional training over the years in business, engineering, management, finance, organizational design and behaviour, leadership, psychology, group dynamics, sociology, cultural anthropology, mediation and family therapy. He makes numerous radio and television appearances, is often invited to be a key note speaker and frequently writes for, and is quoted in, magazines, journals and newspapers throughout North America.

Aron is a member of The Estate Planning Council, The Family Firm Institute (FFI) and The Canadian Association of Family Enterprise (CAFE) and serves on a number of their committees. He is married to Elizabeth Qualben and they have two children, Kristofer and Erik. They all reside in Toronto, Canada.

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Executive Summary

The past fifteen years has witnessed a substantial growth in interest in the family business – among family business members and the rest of the world. No longer are family businesses the butt of jokes or the career of last resort. Indeed, these survey results confirm that both the business family member and the professional who interacts with the family business is becoming more sophisticated in their dealings with each other, the partnership, the family and the business, especially in preventive measures in both the technical and behavioral arenas.

Business families now report:

Change Observed	Impact on Future
1. Accidental partnerships are becoming more complex.	Family participation in the firm and number of inactive shareholders will continue to grow and create more partners who have not chosen to be together. This will require different styles of cooperation, communication, organization and governance to ensure a peer relationship and an appropriate level of participation in key decisions.
2. Shared leadership is becoming a reality.	Business families will continue to have an interest in unique and innovative leadership structures. Shared family leadership and teams will become a clear choice – not only for executive leadership but also for family and shareholder leadership.
3. Managing family relationships is becoming critical to business success.	Business families will continue to value and express a strong appreciation for dignified family interaction, listening and communication. The family meeting process and family councils will become critically important to ongoing success. This is due to an expanding need for collaboration and managing positive relationships in the accidental partnership, family and business.
4. Planning for continuity is replacing succession planning.	Business families will take a multi-disciplinary approach to continuity planning because succession planning seems to hinge on a single event and is not the whole transition story. Family members have begun to clearly recognize that continuity is about changing relationships, roles, culture, direction, information sharing and entire governance systems and structures. To be effective, continuity planning must address and balance personal, family, business and ownership needs simultaneously within the human and corporate arenas.

5. More professional business practices are becoming the standard.	There seems to a strong preference to balance family and ownership needs within a more professional business environment. More family owners and managers are opting for a different style of organization that incorporates business and strategic plans, governance systems and strategic management methods. They are setting up multiple structures to separate family, estate, business and shareholder decisions, allowing both active and inactive shareholders to take more responsibility for the present and future performance of the business and the family's wealth.
6. Women are increasingly taking consequential leadership roles.	More women are being offered and are pursuing the opportunity to lead or play a consequential role in the business and/or in other areas of the family's wealth. Although gender differences still exist, women armed with education and corporate experience are challenging the historical traditions and are successfully taking on leadership roles in the firm as owners, on the foundation, on the board and/or in the family.
7. Distinct decision making and accountability are gaining in popularity.	As the number of shareholders increases and more business families choose to embrace a participative leadership style, we will see improved accountability, role clarity, sharing of information and more sophisticated governance methods and structures. This will result in more advisory boards, owners forums and family councils as well as the systems and policies to support them.
8. The business family is becoming more focused on preventing rather than avoiding problems.	Families are fighting the instinct to sweep sensitive issues aside. They are becoming more open, focused and interested in corrective action as they deal with issues in a fair, caring, aware and dignified manner. As the next generation takes over, families will begin to manage their relationships and attempt to improve their current family, business and partnership interaction with skilled professional help, rather than leaving it to chance. It seems that they are not interested in a long process, but in a solutions-based therapeutic business process.

9. Family business information is becoming comprehensive and more readily available.	The business family population will continue to seek comprehensive information on family firms that validate and help find solutions to their unique situations. Business families will begin to strongly influence the universities, associations, other learning centers and publishers to produce well developed books, courses and tools to support their ongoing evolution from founder to 10th generation and beyond.
10. Services to the family business client will continue to celebrate their existence.	Professional service delivery to the family firm will continue to be more defined and sophisticated as respect for the family enterprise and its ownership relationship increases. As families get clearer when asking for assistance, professional advisors who only purport to be family business consultants will be ill equipped to provide service. The business family will therefore seek those with a documented history of success thereby improving the service and its execution.

Based on the trends identified from this and prior surveys, it seems clear that the business family and the professional community will only get better at what they have already started to do well. But they must find a way to integrate all the relevant information in a fashion that is simple and effective while balancing the needs and priorities of the personal, business, ownership and family arenas. In the end, professionals must reduce the tension experienced by the accidental partners and the rest of the family so that they can logically and comfortably rise above personal concerns and devote their full attention to the business, family and personal growth.

Why Was This Survey Done?

In working closely with family businesses in various capacities, we had developed numerous impressions of how business families might learn to deal with changing social and marketplace conditions. At first, this survey was meant to be a private study that would allow us to better understand and support my observations and opinions. But, over the summer and fall of 1998, as KRS Marketing conducted the survey across Canada on behalf of Pervin & Company, it became clear that we were collecting powerful information describing dramatically different needs of the business family over the next five years. At that point, the purpose of the research changed as we set out to document the overarching trends in the marketplace, using a qualitative context rather than the quantitative approach that is often the norm.

But allow me to return and elaborate briefly on some of the specific observations that originally motivated the study. The most important was our observation that the family business was becoming more complex, more sophisticated and somewhat more professional, but still unable to deal with balancing many overlapping concerns that typically created ongoing tension. To us, the business family seemed to be more frustrated, more knowledgeable and larger in membership, but we were hearing that individuals were still unable to claim that they truly had a voice. Interestingly, many people were commenting that the poor interaction between the generations seemed to be replaced by the awkwardness of sibling and cousin relationships.

In addition, the nature of management was changing from one of individual control to a more participative model. And there seemed to be a stronger interest in more rather than less structure in the family business itself. We also observed more interest in managing the business finances as well as the family wealth, often brought on by a need for capital and family reporting. Both these areas were historically kept private (and secret). Finally, we sensed a change to more openness in the family business environment as both the advisors and the business families became more aware of how to work together. We were interested whether this was due to different values and/or changing participants, and if there was a match to many of the changes in the global economy.

At the same time as ownership structures were becoming more complex, of course, we felt that they were also becoming more confusing. More family members were entering into ownership roles whether they wanted them or not. In some situations, we observed siblings, cousins and parents forging innovative ways to make decisions at board, family, shareholder and foundation meetings. This sparked an interest in how these accidental partnerships would learn to co-exist and how they might choose to balance both shared management and ownership situations at the same time as the numbers of active and passive shareholders were increasing.

Another observation, however, was presented to us by family members themselves. Many business families told us they were experiencing difficulties when attempting to choose helpful advisors because many of these professionals were actually ill-prepared to deal with family businesses in spite of claims to the contrary. They professed to be one-stop shops capable of providing everything from estate planning to family meetings and family therapy. But in reality, they were offering a new spin on an old service, with little substance. We therefore wanted to find out whether advisors were truly using a multi-disciplinary approach and, if so, whether family members placed any value on the benefits.

Throughout our research, our focus was to assist and celebrate the continuity of the family firm. Our approach was to find those trends that could be useful to those family firms who wish to create a lasting legacy and make family business a part of their life. It was felt that a rigid question-and-answer survey would not elicit the messages we were looking for. As a result, we intentionally performed the survey as a dialogue to try and ascertain where business families might initiate change – real and everlasting change. This meant less actual hard data from the survey, but more clear and realistic ideas on the future of the family business. Each telephone interview lasted **more than 30 minutes** and all the **open-ended discussions** surrounding the few standard questions were captured and documented.

With that in mind, the first part of this document identifies our view on the emerging future trends in the family business environment. The second part shows the surveys used to assist in this exercise and describes some of the quantitative data and comparisons from our (and others') past surveys from 1986 to 1998.

Using the data gathered, and blending it with information from my readings, experiences, reflections, intuition, conversations, prior surveys, other people's data and intuition, we are pleased to share our ideas on the future trends of the family business sector in Canada (and much of the data seems to fit North America in general).

The Trends

1. Accidental partnerships are becoming more complex.

Accidental partnerships are exactly what the term suggests. They are associations of related owners who are thrown together by circumstance rather than by choice. You do not choose any of these people as fellow contributors, as they are in some way part of your family. Rather, you inherit them.

Ownership constellations of multiple shareholders and multiple shareholding families are becoming more frequent and more complex. Often, there are both active and passive family shareholders. At times, in-laws, estates, key employees and other types of outside-family owners are also joining the partnerships. Greater complexity is likely the result of unattractive taxation, making it difficult to separate the business and estate equitably among children. Family businesses are also gaining in longevity, thereby allowing more second, third and beyond generations to be involved. Or, perhaps it reflects indecision in the family about how to allocate ownership and the fantasy that ownership will help bond and heal bad relations. Whatever the cause may be, it is clear that the business family sees value in these complex accidental partnerships and is devising workable structures and systems, such as owners forums, that satisfy their ownership needs within the context of family and management needs. Our findings confirm that business families are exploring unique, innovative and effective shared-ownership styles, and these arrangements make good sense in a growing number of situations.

We also discovered that there are now larger age differences in the next generation, especially in cousin partnerships, and this is seen not only in the business but also at the foundation level. (As part of their philanthropic activities, more and more families are creating family foundations and encouraging all next-generation members to participate in the granting of funds to worthy activities. Often, these participants are shareholders who do not work in the firm.) We also observe that the individual partner's ability to understand and manage his or her family business, business family and ownership roles adds to the complexity, especially when coupled with personal needs and ambitions. There are a growing number of books, journals, magazines and courses specific to better understanding these interactions.

The future will require shareholders to strive for more positive interaction and satisfying coexistence – ways to manage their diverse shareholder constellations. This might mean one family buying out other family shareholders to simplify the ownership structure. Or, it could mean an increasingly large number of shareholders within each succeeding generation. As well, we will begin to see a stronger need on everyone's part to better understand their role and obligation to each other and to the business as a partner and a family member. This might mean greater use of marriage and employment contracts. Finally, siblings and cousins who are inactive in the business will begin to affect these shareholder dynamics as they look for ways to monitor the progress and future of the firm and their heritage. This will require higher levels of cooperation, organization and communication so that the owners can participate at an appropriate level in key decisions, develop a better peer relationship and understand and respect the needs of the operators.

As we observe an increase in the number and complexity of accidental partnerships, each individual's well-being will require more attention within the context of the family, the business and the ownership group. This will usually require an organizational focus first and then a look at how the rest of the individual pieces and people fit. It makes sense that greater effort will be spent on satisfying various shareholder and stakeholder groups in a way that balances the needs of the family, business and partnership. Finally, the future learning of shareholders needs to be better defined and programs or books developed to describe the obligations, relationships, context and interactions of a family shareholder, especially those who are locked in with no ready market for the shares.

2. Shared leadership is becoming a reality.

The family firm has always been an anomaly in its leadership practices. Historically, this was due in part to the fact that owner-managers often hold their positions for life, and avoid anointing a specific successor until it is too late. There is also a common family reluctance to "favor" one child over another. One positive outcome is the family business's resulting interest in innovative and effective shared leadership structures to replace the departed leader – structures that are only now being recognized as reasonable. In fact, co-leadership has been a family firm model for years in contrast to all the professional wisdom to the contrary. Interestingly, Heenan and Bennis have just completed a worthy book entitled *Co-Leaders* that discusses the strengths of this leadership style.

One reason for the growth of this trend is the large number of capable individuals that a family business cultivates. Recently, the family business has become a more attractive place to work than it was when we observed the marketplace fifteen years ago. The competent individuals are not leaving to start their own firms or join a major conglomerate. Younger generations are learning from the older generation. In-laws who make valuable contributions are now on occasion being welcomed into the family business. But all these intelligent and trained people insist on a say in company affairs, and it makes sense to explore new leadership styles in search of new ways to co-exist.

There are various corporate models for shared leadership, recognizing that the complex nature of business often creates a need for more than one leader. Not one person can do everything and not for life. Interestingly, within some models, decision-making may still remain the terrain of only a few individuals, although they may consult a wider base of family. As well, our findings indicate that key non-family senior executives are more often leading firms and helping the next generation better understand how accountability can replace control.

The future of shared leadership and family teams needs to be monitored closely. It is not for everyone. It must make sense as a business strategy. To be successful, the group must define how leadership will be shared at both the ownership and management levels. Responsibilities must be closely defined. Families that do not understand the significance of boundary separation will experience difficulty. As well, because this shared style usually leads to no differentiation between the next-generation leaders, the partnership must address individual well-being (that is, the personal needs and expectations of each of the members). Otherwise, it's easy for the situation to devolve into disgruntled management decision-making and hostile shareholders. It makes sense that more attention should be paid to developing shared leadership skills, as they are not usually endemic to family business leaders.

To support this direction, advisory boards and shareholder agreements and, in some cases, formal or informal employment contracts, will become more and more attractive to families. We will begin to see more information on how to clarify shared leadership by defining roles, obligations and relationships to each other and to the business. Perhaps this open leadership style will motivate more business families to engage in family meetings and, ultimately, to formalize the dialogue in a family council. Moreover, it may encourage business families to agree on a general direction in advance and to avoid later clashes by setting out a family and partnership creed, mission statement, vision statement as well as other relevant policies, rules and guidelines.

As an aside, this shared leadership style bodes well for women in the family firm. Surveys indicate that more than 40% of family firms are considering co-presidents in the next generation and that one of those co-presidents is likely to be a woman.

3. Managing family relationships is becoming critical to business success.

It seems that next generation leaders place a higher value on managing relationships than their ancestors. We heard many possible reasons for this. Perhaps the business is becoming too valuable to fight over, or perhaps it is becoming increasingly confusing for everyone as they try and make sense of their new roles as owner, manager and/or partner within the context of their individual needs. Maybe it's the fact that change is now constant and business families are beginning to see that a focus on personal matters predictably ends in business problems that make personal woes even worse. In some cases, elders and their juniors are using the process of continuity planning to forge more meaningful and respectful new roles. And there is also a tidal change in conventional wisdom regarding personal well-being, especially among maturing baby boomers, leading business families to regard fair fighting as normal and healthy. War-like tendencies are seen as unnecessary and antisocial, leading to ostracism.

So how does the need to manage relationships manifest itself in the business family? Compared to past generations that drew a sharp line (usually gender-related) between career and family, current family leaders report that balancing career and family is more important than ever. This search for equilibrium necessitates ongoing negotiation and the management of relationships.

Families at the second generation level and beyond already seem more interested in listening to each other and in developing family visions, missions, creeds and philosophies of operation. In the future, business families will increasingly view the development of explicit shared goals as beneficial, although this will remain difficult at times. They will learn how to make the ongoing family meeting process work in a satisfying fashion. They will explore their family genogram and develop material outlining their family rules, myths and culture. In addition, the future will see many families differentiate between the process for business decisions and family decisions. More families will use committees such as boards of directors, boards of advisors, and family councils as helpful structures.

The willingness to manage relationships within the business family cannot be overestimated in importance. This new recognition that a poor family relationship can and will undermine all the business's professional structures and processes is a watershed development. We believe the incoming generations are becoming more interested in preservation rather than control. This is demonstrated in their growing interest in acting as stewards to the enterprise, even when they may not be the appropriate operational managers. There is a much greater inclination to listen to, respect and value the views of other family members.

The key for the future of the business family is to make family meetings and a family council work, and to develop an explicitly stated vision to enact a shared future.

4. Planning for continuity is replacing succession planning.

The historical context of succession planning focused strongly on the event where control passed from one generational individual to the next. A more inclusive approach has gradually evolved. The idea of succession has led to the concept of a transition, and the focus on a one-time event has broadened to conceive of a process. As families begin to view transition in a healthier and more cooperative fashion, they have begun to acknowledge that the process is ongoing – continuous – and the idea of continuity planning seems to make perfect sense.

At last count, we identified the following plans as part of the continuity process: Participation (succession and accession), Management, Ownership, Family, Strategic, Business, Governance, Exit-entry, Intentional Legacy, Estate, Retirement (personal financial) and Learning. This reflects a clear difference to our prior concept of this activity.

There seems to be a stronger need to balance the individual, family, company and owner dimensions as the exit-and-entry candidates develop new roles. In the old days, the exiting leader would never use the term "retire", and only under extreme circumstances would consider changing a role that was so satisfying for 30 or 40 years. But it is now common for outgoing leaders to view transition as a long-term process where all roles change gradually. There is much more attention paid to comfort, co-operation and inclusion.

The future will confirm that the continuity process is not just about changing ownership and/or leadership. The business family already places a high value on a continuity plan that reflects the family's culture and values. Now, it has begun to clearly recognize that continuity success is about changing relationships, roles, culture, direction, information sharing and entire governance systems and structures.

The future will see more family firms establish a structured ‘transition team’, likely reporting to the family council and making recommendations to the board. The transition team will consist of both family and outside talent in order to be more objective and independent in the process. There will also be greater use of more than one advisor in a more expansive, multidisciplinary, developmental process that addresses the needs and priorities of each generation as well as the competency of management, the obligations of ownership, the needs of the individual and the integration of the family, and not just on the technical details of the ownership and management change.

As part of the transition plan, many business families favor a documented family charter that at a minimum includes a family vision, family mission, family creed and rules for entry, staying and exiting. This is, once again, an indication of a more open environment where information is shared more freely. There also seems to be a strong desire to keep the core business strong, and this might reflect on the higher values that these businesses have and the cash flow that they offer in the form of salaries, equity growth and/or dividends.

Finally, the whole concept of the continuity process as a planning mechanism has allowed more families to consider selling all or part of the business. With more substantive communication, decisions are being made to preserve family wealth and heritage – not just the successor’s job. In many cases, this does not necessarily demand that the business remain as it is today over the long haul. This shift allows for much more respectful personal and family interaction as well as a better understanding of how a partnership might or might not be appropriately formed. It identifies the need to better understand the effect this open communication may have on business performance.

5. More professional business practices are becoming the standard.

Over the last fifteen years, consultants, business literature and company owners and operators have changed their attitudes towards management, leadership and best business practices in the family firm. One result today is that the business family has become more comfortable with re-evaluating the business strategy of their ancestors and improving upon it. They seem to be more receptive to challenging many sacred business traditions and seem to value a balance that integrates corporate professionalism and entrepreneurial innovation. In doing so, they are demonstrating an interest in deconstructing the “heroic founder” model to one that is more inclusive and more focused on moving the organization forward.

Interestingly, family businesses always did this, in their own quiet, often misunderstood, way. Their difficulty involved the tension between what they would do as a family and what they might do as a non-family business. Indeed, much of the literature over the last fifteen years explores the difficulty that family members have in differentiating themselves, their roles and dealing with accountability.

Planning for business change through professional practices is now gaining some ground. Marrying the needs of the business with the values and heritage of the family (which directly affects the way the business is operated) is becoming a more credible planning direction. Although we do not presently observe a significant rise in the number of plans being developed, it seems clear that those family businesses that continue through the generations have used more formal planning techniques. It seems clear that family businesses and business families no longer feel compelled to choose either an entrepreneurial style or a professional form of business practice – a sort of good or bad model. It seems now that they are comfortable in choosing an entrepreneurial and professional approach.

This change is being driven by a greater need for access to capital and increasing numbers of active and inactive shareholders who are interested in information gathered through financial management, monitoring and reporting. Entrepreneurs are also more inclined to create and talk about their entrepreneurial plans, thanks in part to the positive confirmation of magazines such as *Inc.*, *Family Business, Entrepreneur* and more recently *Fast Company*. (In the past, I believe that questions about planning made the family business respondent feel inadequate and therefore they would indicate that they had no plan.)

The future will see more formal planning as the widening web of family business shareholders begin to more closely monitor and be accountable for the performance of the business and the family's wealth. Effective boards also need formal plans, policies, strategies and the like to do their job. Business and strategic plans, competitive analysis, innovative marketing and public relations, governance systems, strategic management methods and multiple structures to separate family, estate, business and shareholder decisions will become critical.

This is obviously a more structured and organized style of business. However, family businesses may not always deploy a rigid approach. This awareness and the ability to choose the appropriate direction will create a style of professionalism that will be seen more and more in the future.

6. Women are increasingly taking consequential leadership roles.

Traditionally, primogeniture (first-born male) was the chosen transition strategy and the remaining male family members took on a subservient role or left. As time went on and family businesses became more sophisticated, prevailing wisdom was that the most competent individual should take the lead role in the business. But the business usually remained a male domain – women often were not socialized to consider themselves as potential successors. We are now experiencing more pronounced results of the feminist movement and the evolution to a more egalitarian environment. Leadership is now much more likely to be an issue of competency rather than gender.

This is a very encouraging change. More women are pursuing the opportunity to lead or play a consequential role in the business and/or in other areas of the family's wealth. Although gender differences still exist, women armed with education and corporate experience are challenging the historical traditions and are successfully taking on leadership roles in the firm, as owners, on the foundation, on the board and/or in the family.

The way of the future confirms that competency will replace primogeniture and therefore competent sons and daughters will receive equal consideration. Indeed, as more women take a leadership role in the family firm, estate planning activities, marriage contracts and shareholder agreements will need to address their specific needs, which has not always been the case to date.

Over the next five years, the participation of women in leadership roles in the family firm will probably double. It seems clear from many sources that women represent some 20% of the population of family business leaders, in contrast to the overall small-business marketplace where the 1998 Bank of Montreal Institute for Small Business showed that over 30% of all firms in Canada were led by women. The 1996 report of the National Foundation for Women Business Owners indicated that women owned 36% of all entrepreneurial businesses. Family businesses cannot continue to lag in this manner. Women as a group are obtaining relevant education, staying in school longer and becoming more assertive in the way that they deal with their family and business relationships. Families are already appointing more of their female members as leaders, and this trend will continue.

In addition, more and more women owners are beginning to better understand how to exercise their shareholder rights. They are choosing to attend management training courses and this experience will assist them in their professional development. Finally, there are now many female and feminist family business advisors to help women in leadership roles.

Gender issues remain, but for many business families, the influence of these factors will eventually disappear.

7. Distinct decision making and accountability are gaining in popularity.

As the number of shareholders increases and the business environment becomes more complex, family businesses are taking a greater interest in sophisticated decision making through governance systems and structures. But this is a complicated organizational process that requires a significant commitment.

At a minimum, it requires a shift from the unilateral control of an autocratic leader to participative accountability. Governance is often associated with structures such as a board of directors or advisors, an owners forum and/or a family meeting process or family council. For these systems and structures to be helpful, family businesses need more information about how these entities operate. At present, the business family is often told they need these forums and, at best, are offered a book or a brief course on the need for them, but they have little information on how they function as a governance system. Business owners often report that their only source of assistance is their accountant or lawyer, many of whom have never served on a board themselves. The entrepreneurs often establish an operations committee and call it a board.

It therefore is not surprising that surveys confirm that the value of an outside board is not widely recognized. The difference between the board and the family meeting process also remains confused. Anywhere from 15% to 30% of family firms declare they have active boards and no more than half of these include outside members. Nonetheless, these same family firms express an exceedingly high regard for the advice and contribution of the board members. It is fascinating to note that family business leaders seem to want more accountability. Even though two-thirds confirm they have no formal boards other than what is required by law, each felt that a board could be beneficial.

About a third of the respondents reported that they hold meetings for the family, but most are ad hoc, reactive and infrequent. These same respondents further indicated that the focus on business discussion rather than on aspects of family relationships and cooperation make attendance less satisfying, if they attend at all. Moreover, family members report that they are not good at holding these forums as family history and inappropriate communication patterns get in the way. This awkwardness makes these meetings less attractive over time.

Finally, there seemed to be some confusion as to the value of a separate forum where only shareholders meet. This confusion was greatest in businesses where all the owners were also operators and least in business families with shareholders who were in the firm and others that were not involved vocationally.

Family members working in the business seem most interested in greater clarity around how they interact in the different roles of partner, family member and business operator. They want a clear area of the operation that they can manage without the meddling of other shareholders. Family members who are shareholders but not active in the business want clear roles and standards for how information is shared and decisions made so they understand where they fit in the process. Both these orientations act as forces for further governance structure. In other situations, we found that the transition to next generation management was the catalyst that led to more systems and structures.

As more and more family leaders begin the journey to participative leadership and decision making, governance structures (business planning, strategy formulation, decision-making forums, etc.) will increase in value and benefit. More families will begin to start the family meeting process, commence frequent business meetings and initiate ownership dialogues. Once they become more confident in the value of separating these discussions, the institution of more expansive governance systems and structures will be simpler.

In order for this to occur, however, it’s important that company owners get assistance from experienced advisors. To make sense of what is best for each family business, and learn how to integrate all this into the way they operate as a family, business and owners’ group, the business family must begin to seek out skilled individuals who have documented success in this field. It will become one of the major reasons why outsiders are invited to work with the business family, family business and/or accidental partnership.

8. The business family is becoming more focused on preventing rather than avoiding.

Family conflicts remain private and secret in most situations, but there is a shift in thinking that is helping business families focus more on the organization of their partnership, family and business which in turn leaves them less dependent on the emotional swings of any one person. It seems that, in particular, second-generation firms and beyond fit this description. But all companies report that it is an ongoing struggle.

On one hand, the business family is less inclined to allow issues to reach an impasse. But, at the same time, when differing opinions occur and resolution is unlikely, business family members report that emotional and physical distancing is likely to occur, and communication is often cut short.

So, while results vary, the underlying attitudes are changing. Families report an increased willingness to become more open, focused and interested in corrective action as they deal with issues in a fair, caring, aware and dignified manner. As the next generation takes over, families will begin to manage their relationships and attempt to improve their current family, business and partnership interaction with skilled professional help, rather than leaving it to chance. It seems that they are not interested in a long process, but in a solutions-based therapeutic business process. It must make business and family sense.

This willingness to deal with conflict once again appears to originate in the change to a more collaborative ownership style, even when there is significant parental oversight through the use of trusts, voting shares, advise, criticism and the like. There's a recognition that poor communication and unresolved interpersonal problems affect business outcomes. Business family members both in and out of the firm commonly express dissatisfaction with some of the results of their attempts at family meetings, family councils and establishing a board and owners' forum. This dissatisfaction is no longer seen as something to be lived with, but instead as an impediment that must be overcome.

Respondents further indicated, however, that they are not able to make easy use of preventive measures. A number reported that they turned to no one when they were in need of advice and dealt with the matter on their own. A larger percentage indicated that they valued the advice of associations, accountants and lawyers. Very few indicated that they use the Internet, magazines and other published sources. For those who had consulted with an outside source of information, the Canadian Association of Family Enterprise was cited most often, followed by the Family Firm Institute in Boston and then other university-based centers. In addition, many indicated that accountants were more frequently sought for advice than lawyers, but when compared to past surveys this gap is lessening. Consultants were used least often, but more complex family ownership groups were more likely to hire consultants who specialize in business family relationships. The use of these specialists was divided evenly between ongoing associations and project assignments. Most importantly, all family members canvassed indicated that they believe advisors should have a documented family business background, be current with the market trends and have an ongoing affiliation with family business associations.

The increased interest in prevention – as opposed to avoidance – of family conflict will allow business family members to be more clear as to the issues they wish to solve and, in the best of all worlds, be able to rank priorities and plan a resolution. This will support the multi-disciplinary approach to personal, partner, family and business relationships and their improvement, including all the preventive techniques to allow for satisfying family interaction and business growth.

9. Family business information is becoming comprehensive and more readily available.

University courses, professional and trade associations, magazines and daily newspapers are making information about family business available in unprecedented quantity. An academic journal titled *The Family Business Review* has been available since the late 1980s.

Unfortunately, business family members report that they seldom if ever seek out this information. Not surprisingly, operating the business takes a higher priority than learning about it. This smacks of the entrepreneur’s traditional preoccupation with ‘doing’ rather than ‘planning’ or ‘thinking’, especially during working hours.

Nevertheless, as the economic contribution of family businesses rises, more information becomes available. Surveys conducted over the last ten years have consistently confirmed that a third of Fortune 500 and Financial Post 500 businesses are family owned and controlled. Other surveys say that 80% to 85% of all independent business in North America are family owned and operated in some fashion. Consequently, around the world, authors are publishing books on a diverse range of family business topics, and university-based family business centers have sprung up across the continent. As yet, they are not widely used, but they are recognized locally and area participants indicate they get value from membership.

In surveys spanning fifteen years, family business owners indicated no clear change in interest in learning programs. Only one out of two respondents indicated they had an interest – but not a high interest. Those who said programs had some appeal wanted to resolve an existing problem – usually a technical issue such as estate planning or financial management – and very few saw the possibility of preventing problems such as communications breakdowns, strategic mismanagement or transitional issues. Many respondents saw an abstract need to know more about family relationship issues within a business, but these same respondents also indicated a low interest in attending a session if offered. The most frequent reason was that their family affairs were private matters and not for public discussion. Many indicated that they read magazines and books on family business and entrepreneurial business topics, and these were insightful.

Canadian respondents recognized the Canadian Association of Family Enterprise as a family business resource association. Other organizations (such YPO, YEO, York University, Waterloo University, The Montreal Institute of Family Enterprise and The Family Firm Institute of Boston, as well as regional family business centers) were cited by less than one-third of respondents, but they were not necessarily members. However, sixty-five percent of those that found value in these learning opportunities indicated that they used these resources with some regularity. The Canadian Association of Family Enterprise and especially their personal advisory group section received the most positive remarks.

Most family entrepreneurs felt that the majority of publicly available information on family business describes basic issues only. They indicated that the best way to gain access to more advanced information was through the direct employment of a knowledgeable consultant, academic or other professional.

As communication and sources of information become increasingly technical, it is likely that the Internet will play a larger role for family business. However, while 18% of business families now believe it's a good idea, only 7% currently use the Internet as a source of information specific to family business. More than half (57%) indicate that this is a low priority. This will be an exciting area of change.

With increased recognition and economic clout, the family business population will begin to strongly influence the university-based and association programs. These providers will especially be directed towards families' rising interest in participative management and smooth generational transitions. With the increasing thirst for knowledge among family entrepreneurs, these public university and association programs will experience a similar demand for assistance as will outside consultants. Some of these needs will be met through the use of interactive CDs and other types of self-directed learning programs. Workshops, seminars and publications will also continue to be popular.

Most important is the next major shift in the marketplace. Business families are becoming more vocal and therefore more powerful in how they can influence the information available to them. They will make a strong statement regarding the need to better understand how to put their transition and continuity plans in place so that they can manage their long-term planning obligations and relationships.

10. Services to the family business client will continue to celebrate their existence.

Respondents indicated that services to family businesses are becoming much more sophisticated and geared to their needs. They cited the estate and tax areas as the most comprehensively covered, with business planning second, followed by human and behavioral services. We believe that services will continue this trend and become even more specialized. This will occur primarily because families will insist on a high level of experience and professionalism in their specific area of concern.

Currently, family businesses must exercise caution in hiring outside advisors. While services have improved, respondents found it difficult to differentiate between the service providers in the marketplace, as each adopts the label of family business advisor with differing levels of authority. At times, business family members report confusion over appropriate roles in some technical matters. They indicated, for instance, that advisors unanimously want to help them have meetings and talk to each other, but they found this assistance intrusive for many financial and legal discussions. Conversely, some respondents also indicated that their therapists were now offering them business advice, which also was not well received. They reported that this one-stop approach was fine in theory but not helpful in practice when advisors did not demonstrate experience outside their area of expertise. In some cases, it was felt it was simply a marketing ploy to sell the same services they always provided in another specialty.

The majority of the respondents indicated broadly that long-term relationships with their advisors were highly preferable and most trusted. In many instances, however, business families indicated that they wanted outside advisors to work on a short-term project basis to address a specific problem rather than on a long-term or ongoing engagement. They further indicated that as they learned more about the specific needs of their family business, they became more interested in retaining other specialists in addition to their accountant and lawyer. Most often, they cited the need for expert help in managing and organizing the family, business and ownership arenas.

It seems that the family business market is maturing. Just as a person requiring specific medical care would choose a qualified specialist, family members in future will require specialized family business experience from their service providers. Educational programs offered through universities and trade associations are reinforcing this, but the new generation of leaders are themselves more concerned with hiring appropriate experts rather than relying on one or two insiders, as often occurred in the past.

In summary, these findings confirm that family businesses should be wary of advisors selling services they are not qualified to deliver. In the future, as family businesses continue to specify precisely what they want, they will in all likelihood be hiring multiple advisors with a variety of specialties to meet specific objectives, mostly on a project basis.

Survey Analysis

In the summer and fall of 1998, KRS Marketing conducted a cross-Canada survey of family businesses on behalf of Pervin & Company to assess the changing needs of the business family over the next five years. The purpose of the research was to elicit overarching trends in the marketplace. The survey was conducted in the form of telephone interviews. A copy of the interview questions can be found on page 37.

What follows is a review of various surveys that have been conducted over the last decade, including the results of the Pervin & Company survey. For reference, the surveys reviewed are:

- Pervin & Company 1998 (PC 98)
- Regeneration Partners 1998 (RP 98)
- MassMutual/Arthur Anderson 1997 (MA 97)
- Arthur Anderson 1995 (AA 95)
- CAFÉ 1995 (C 95)
- MassMutual/Family Business 1995 (MF 95)
- MassMutual/Family Business 1994 (MF 94)
- MassMutual/Family Business 1993 (MF 93)
- Family Business 1990 (FB 90)
- Laventhal & Horwath 1988 (LH 88)
- Laventhal & Horwath 1986 (LH 86)

Composition of the family business

Characteristics

The make-up of family business has not changed significantly in recent years. While different surveys ask different questions, making comparison difficult, patterns can be detected. These suggest that:

- the owners and CEOs of family businesses are still mainly white males;
- these businesses are currently being passed on to the next generation; and
- revenues are increasing.

Respondents to the MF 93 survey were owners or co-owners of a family business. Generally, they were:

- white (92%);
- males (82%);
- over the age of 50 (51%); and
- many were the first generation owning the business (65%).

Most of the companies had

- gross revenues of less than $10M in 1992 (84%), and
- employed 50 full-time and 15 part-time employees (mean).

The MF 95 survey group was similar. Respondents were again the owner or co-owner of a family business. The majority were:

- white (92%);
- males (84%);
- over the age of 50 (51%), and were
- the first generation of their family involved in that business (72%).

A greater percentage of businesses had large revenues than in 1993, with

- 72% less than $10M.
- 59% had less than 50 full-time employees and
- 72% had less than 5 part-time employees.

The focus of the questions in the MA 97 survey was slightly different, but responses suggest that there had not been major change in the make-up of family business. The majority of CEOs of the companies covered by the survey were

- male (95.3%), and
- over age 50 (64.5%).

The number of first generation respondents was 37.1%, and 1951 was the median year for the business being started. The revenues of this survey group were greater than the 1993 and 1995 surveys, with

- 52% of respondents reporting revenues of less than $10M.
- The average number of full-time employees was again 50.

There were some significant differences in the results of the PC 98 survey. First, the companies in this survey group were more likely to have higher revenues.

- 10% had revenues between $1 million and $5 million, and
- 35% had revenues $6-15M.
- 15% had revenues from $16-25M, and another
- 15% from $26-49M. Most significantly,
- 25% of respondents reported revenues of more than $50M.

Respondents in this survey were also more likely than in other surveys to report that the family business was controlled by

- the second generation of the family (43%). A slightly smaller number of respondents,
- 40%, said the company was run by the first generation.
- 7% of companies were run by the third generation, and a further
- 7% were run by the fourth or later generation.

While these differences are partly due to the companies surveyed, they also suggest that family businesses are earning greater revenues and being passed on to later generations.

Ownership

In the AA 95 survey,
- 12.9% of companies had only one family owner.
- 25.3% had two family owners,
- 17.7% had three and
- 44.1% had four or more.
- 22% of companies also had non-family owners.

In the PC 98 survey,
- 21% of companies had only one family owner, while
- 25% had two,
- 11% had three and
- 32% had four or more.

- 21% were owned by only one person, whether from the first or a later generation.
- 29% had two or more owners from the same generation, while
- 43% had two or more owners from different generations.
- 7% were owned by two different families, while
- 7% had shareholders from outside the family.

These two surveys differ in that the 1998 results suggest a much larger proportion of family businesses are owned by one person only and a significantly smaller proportion have non-family owners.

Family Member Involvement

The number of family members involved in companies and their relationships to each other vary greatly. However, the majority of companies have at least three family members involved, usually from two generations. The family members most likely to be involved are spouses and sons.

In the FB 90 survey,
- 26% of respondents reported involvement in the company by one or two family members
- 41% said three or four were involved; and
- 33% said five or more were involved.

These findings largely correspond to those in the PC 98 survey:
- 28% of companies have one or two family members involved;
- 36% have three or four; and
- 36% have five or more.

The number of generations involved in the business coincides exactly in these two surveys:
- 28% currently have only one generation involved,
- 61% have two, and
- 11% have three or more.

As would be expected, the number of family owners is less than the number of family members involved in the business. In the AA 95 survey,
- 12.9% of family businesses had only one owner,
- 43% had two or three owners, and
- 44.1% had four or more owners.
- 22% have non-family owners.

These findings largely correspond to those in the PC 98 survey, although the latter had a greater proportion of individually owned companies.
- 21% have one owner, whether from the first generation or after,
- 36% had two or three owners, and
- 32% had four or more owners
- 11% of respondents did not indicate the number of owners.

MassMutual surveys inquired in detail into the relationship between family members involved in the family business and the respondent (owner or co-owner).

	MM 93 (%)	**MM 94 (%)**	**MM 95 (%)**
Spouse	49	43	34
Son	46	40	34
Daughter	19	17	16
Brother	20	20	26
Sister	9	7	11
Father	13	15	21
Mother	7	9	11
Son-in-law:	7	4	5
D-in-law	2	2	1
Bro-in-law:	6	5	6
Sister-in-law:	2	2	3
Nephew:	4	5	4
Niece:	2	2	2
Cousin:	4	4	4

These statistics show that participation by women is increasing, both overall and in comparison to the corresponding male family member (e.g. brother-sister, father-mother), but is still significantly less than male participation. The responses also reveal that while spouses and sons remain most likely to be involved, these percentages have decreased. This is possibly due to the effects of succession: as the next (younger) generation takes over, it is less likely that the following generation is currently involved in the business. This theory is supported by the rising percentages of involvement by family members from the previous generation, especially between 1994 and 1995.

Women in family business

The typical situation of women in family businesses was set out by the findings of the FB 90 year-end survey. Summarizing the position of women, who were 24% of respondents, the magazine concluded:

> *Among them [female respondents], 39 percent are daughters or daughters-in-law of founders, 29 percent are wives, 18 percent are founders (compared to 40 percent of the men), and 6 percent are granddaughters. Compared to the men, these women are younger and work in smaller, newer companies with smaller sales volumes and fewer employees. They are significantly less satisfied than men with the way their relatives treat them and with their ability to influence long-term planning. They feel that they have less control over their financial rewards, company policy, and plans for the future. Finally, they are more tense about several important family dilemmas including going bankrupt, losing control of the business, being treated like a child, and being dominated by a sibling.* (pp 43-44).

The observations about women in family business can be divided into two categories. First, women have historically been less involved, but this is changing, as suggested by involvement in smaller, newer companies. Consequently, this can be expected to change over time. Second, women feel that they are still not being allowed to take a significant role. Change in this regard will require altered attitudes among family members (e.g. succession planning, involvement of daughters, roles of women within the company).

The under-representation of women is reflected by the low percentage of female respondents in the various surveys. In the LH 86 survey of entrepreneurs owning businesses,

- only 3% of respondents were women. In the MF surveys, the percentage of women respondents were higher, but these surveys focused on either owners or relatives of owners.
- In 1993, 18% of respondents were women. This rose to
- 21% in 1994, but fell to
- 16% in 1995.

In the PC 98 survey,

- 11% of respondents were women, and
- 18% of the companies had a woman in a central leadership position.
- (However, 25% did not give an indication of whether there was a woman in a leadership position or not, so this result may be deceptive).

This under-representation may in part be due to the companies surveyed. As noted in the FB survey, women tend to have ownership positions in smaller, newer companies. However, most of the surveys focus on mid-market companies, and may consequently have missed a significant portion of women involved in family business. The MF surveys (1993, 1994 and 1995), for example, considered only companies with revenues over $2M. This was recognized by the 1997 survey, which focused on companies with sales over $1M. LH 86 similarly recognized that the selected criteria excluded many women from the survey (p21). As these smaller companies grow, the number of women in leadership positions can be expected to increase.

While company size and age may answer some of the concerns about the under-representation of women in family business, it is not the end of the story. A significant number of women remain concerned about their roles within family business. Justification for this concern is particularly evident when the positions held by women in companies is examined.

MF felt difference in college education might be one reason that women are under represented in ownership positions. But could also reflect the occupational roles filled by women and men i.e. not getting a college education because they are not expected to do a job that requires one.

The MF 94 survey addressed the different positions filled by daughters and sons in family businesses. More than twice as many owners of family businesses employ at least one son (33%) as at least one daughter (14%), but the positions filled by these children did not correspond to this difference.

There are indications that the position of women in family businesses will change over time, but not particularly rapidly. As noted above, women are more likely to be involved in smaller, newer businesses, and as these businesses grow (in both size and number), so will the number of women involved. Furthermore, opportunities for women to take over their family's business also appear to be increasing.

The MF 95 survey inquired into the future ownership envisioned by respondents. The responses differed significantly between men and women. Male owners were most likely to see

- a son as owning the business in the future (37%) than
- a daughter (7%) or
- sibling group (23%).

Female owners were most likely to see

- a sibling group taking over the ownership (37%), and while more saw
- a son taking over (19%) than
- a daughter (14%),

these numbers were significantly more similar than among male owners. Because women are twice as likely as men to see the possibility of their daughters taking over the business, opportunities for women will continue to increase as more women become involved.

Further opportunities for women are suggested by the results of the MF 97 survey. While only 4.7% of respondents reported that their company currently had a female CEO, the possibility of a woman being the next CEO was 25%, five times that amount. Moreover, the growing preference for co-CEOs is likely to increase the number of women in that position. Only 11.2% of companies surveyed had co-CEOs, but 42.1% of respondents envisioned co-CEOs in the next generation. Of these, 42.3% say that one may be a woman.

Governance

Decision-Making

The MF 95 survey inquired into the decision-making process of family businesses. 37% of respondents stated that only one or two individuals made decisions on major issues affecting the company, including strategic direction and capital investment. A further 42% had only three or four individuals in this central decision-making group. Within these groups, 48% made decisions on the basis of consensus, 34% left the final decision to the owner, and only 6% held votes.

Boards

Most family businesses have a board of directors or advisory board, which is generally made up largely of family and close advisors. Businesses with boards tend to be positive about the board’s contribution.

- 73% of respondents in the MF 95 survey replied that they had a board of directors. As in the LH 86 survey, in which only
- 14% had an independent board of directors,
- the majority of boards (83%) were made up solely of family and close advisors.

Board Composition			
Number of members		Number of family members	
One	1%	None	7%
Two	14%	One	9%
Three	30%	Two	29%
Four	24%	Three	25%
Five	18%	Four	18%
Six or more	11%	Five or more	11%

These responses correspond to the findings of the MF 94 survey, in which the mean number of board members was 3.62 and the mean number of family members on the board was 2.64.

17.3% of respondents in the AA 95 survey did not hold board meetings. 71.1% held up to four meetings each year. Respondents to this survey were largely satisfied with the contribution by the board:

- 19.5% felt the contribution was outstanding,
- 45% described the contribution as good, and
- 13.7% as fair. Only
- 3% felt the contribution was poor, while
- 19.2% said there was no contribution.

Respondents in the PC 98 survey were less likely to have a formal board.

- 46% had an board, while
- 43% had no board or informal meetings only.
- 11% no response.

The majority of those companies with a board (69%) had both family and non-family board members, while 23% had only family members on the board.

Family meetings

32% of respondents in the AA 95 survey reported holding formal family meetings other than board meetings. At these meetings,

- 91.4% discussed business,
- 52% discussed ownership, and
- 49% discussed non-business matters.

In the C 95 survey,

- 45% of members reported holding regular family meetings, and
- 68% of members planned to have regular family meetings.

No corresponding information was available for non-members, although it is likely to be lower.

Similar results were obtained in the PC 98 survey.

- 39% of respondents reported holding family meetings other than board meetings, and a further
- 11% held informal family meetings from time to time.

Of those who held regular meetings,

- 45% had one or two a year, while
- 36% had three to six meetings a year.
- 18% said that their meetings were held occasionally.

At these meetings, nearly

- half addressed business only (45%),
- one-third discussed both family and business subjects (36%), and
- 18% did not specify the topics of discussion.

Of those holding family meetings,

- 40% said that only actively involved family members attended the meetings, while
- 13% limited attendance to owners.
- Only 20% involved all family members in the family meetings.

The PC 98 survey suggests that families who have a board of directors are more likely to also have family meetings. Of companies without a board,

- 50% had family meetings, and 50% did not.

But of the companies that did have a board,

- 62% had family meetings and only 38% did not.

Communication

Communication is getting increased attention by people involved with family businesses. As the number of family members involved in family businesses grows and relationships become more complex, the issue is likely to continue to grow in importance.

The C 95 survey found improving communication to be the second most likely reason for members to have joined the organization, and the fourth most likely reason why non-members might join. While communication appears to be of less interest to non-members, it was ranked second by non-members when interest in workshops was assessed.

In the RP 98 survey, communication among family members was the third most commonly cited issue of significance to family businesses, following only estate, tax and wealth planning and ownership transfer planning.

The PC 98 survey also suggested that individuals involved in family businesses considered communication important, but that improvement still needed to be made.

- 46% of companies surveyed had a board, and
- 50% had either formal or informal family meetings. However,
- 21% of respondents had neither board meetings or family meetings. These tended to be smaller companies with only one or two owners.

Interest in communication among respondents to the PC 98 survey is also suggested by the fact that 54% are involved with CAFÉ.

The FB 90 survey suggests that age, not surprisingly, influences attitudes towards planning for retirement, and the degree of communication that should be involved, as shown below.

Attitudes towards planning for retirement			
	Under 35	36-55 yrs	56+
consult with children about retiring and succession	61%	55%	43%
work as long as you can	27%	33%	45%
retire early	10%	9%	7%
retire at 65	2%	3%	5%

Information

Advisors and sources of information

Family businesses appear not to place great reliance on outside advisors. When necessary, however, accountants, lawyers, and occasionally other professionals are utilized.

When asked to identify the most important business advisor from outside the family,
- 30% of respondents in the MM 93 survey indicated that they had no such advisor.
- 31% said their accountant was most important, while
- 9% chose their attorney and
- 4% their banker.

In the AA 95 survey, the most trusted advisors were the business':
- accountant (43%)
- lawyer (19%)
- spouse (9%).

In the MA 97 survey, the results were largely unchanged for accountants (44%) and lawyers (19%), but a business peer was ranked third at 9%. The role of lawyers received significantly greater recognition in relation to succession and estate planning, however, with 41% of respondents to the 1995 survey claiming their lawyer was most instrumental in this regard, as compared to 40% favoring their accountant.

Professional advisors are rarely used by family businesses. In the MM 94 survey, only 7% of respondents reported using independent consultants or counselors to help resolve family conflict. These were most likely to be an
- attorney (34%),
- business consultant (29%) or
- accountant (15%), although others such as
- psychologist (12%),
- financial consultant (8%), and
- management consultant (7%) were also mentioned.

The following year, independent advisors were cited as a source of information for family business by 9% of respondents (MM 95).

Associations specific to family business

People who are involved in family business are not enthusiastic about becoming involved with associations specific to family business. However, such associations and the services they provide can be an invaluable source of information.

When asked if they would be interested in belonging to a national association of family businesses, respondents in the MM 94 survey were not overly enthusiastic. Only
- 9% described themselves as very interested, and
- 34% as somewhat interested.
- 25% of respondents were not too interested in belonging to a national organization, and
- 30% were not interested at all.

When asked the two main reasons for joining such an association, respondents were most likely to indicate that they would like to benefit from

- advocacy (66%).
- 50% would consider joining in order to receive communications,
- 44% for education purposes, and
- 33% for research purposes.

In the PC 98 survey, most respondents were aware of CAFÉ and other such organizations. The majority of respondents utilized this resource (54%), and some were particularly strong in their praise, identifying it as a primary source of information and one respondent described herself as a “big fan”. 14% of respondents no longer use CAFÉ, while 32% are not involved or do not know of it.

A survey of members and non-members of CAFÉ was done in 1995. Not surprisingly, issues were on the whole considered more important by members than by non-members. Despite the different degree of significance attached to issues, however, priorities were largely similar for members and non-members.

One major difference in priorities between members and non-members is in communication. While current members were more likely to cite this as a reason for joining, they have less interest in seminars on the topic.

Seminars

As the responses to the FB 94 survey and the C 95 survey show, a widely recognized benefit of such associations is the availability of seminars on issues relating to family business. This is in stark contrast to the LH 88 survey, however, in which over 90% of respondents expressed no interest in seminars on particular topics.

Surveys show increased attendance at seminars by people involved in family business. In the AA 95 survey, 27.8% of respondents had participated in family business seminars, but this increased to 40.8% of respondents in the MA 97 survey.

One area in which the benefits of family business seminars can be observed is the awareness of taxes due at death. In the AA 95 survey, 68% of respondents claimed to have a good understanding of the amount of estate tax due. However, respondents who had attended family business seminars were more likely to have a good understanding of the issue than those who had not (70% compared to 59%). Similar findings were made in the MM 97 survey. Respondents who had attended family business seminars were more likely to report a good understanding of estate tax liabilities than those who had not attended such seminars (69.5% compared to 59.1%).

The PC 98 survey suggests that family businesses that made use of sources such as CAFÉ were more likely to have a wider use of professional advisors than other family businesses. Of those respondents utilizing CAFÉ

- 0% used only an accountant, and
- 28% used just a lawyer and accountant.
- 44% sought advice from other professionals.
- 28% did not respond to this question.

In contrast, of those respondents who did not use CAFÉ

- 20% of used only an accountant, and
- 10% used a lawyer and accountant only.
- Only 20% turned to other professional advisors, and
- 50% did not answer the question.

These high proportions of respondents failing to answer may skew the results, but they suggest that respondents who used CAFÉ were more likely to discuss things with their advisors and to have more diverse sources of information.

Use of the Internet

As communication and sources of information become increasingly technical, it is likely that the Internet will play a larger role for family businesses. However, the PC 98 survey suggests that family businesses are not yet comfortable with the Internet. Only

- 7% currently use the internet as a source of information specific to family business, although
- 18% feel it would be a good idea. A further
- 18% use the Internet, but not for this purpose.
- 57%, over half, of respondents gave no response at all on this topic, illustrating the low priority with which the Internet appears to be treated by family businesses.

Preparing for the Future

Keeping the business in the family

Respondents in the FB 90 survey were asked to list identify the three most important advantages of working in a family business and three most important business goals. The results were not as family-orientated as might be expected.

Top three advantages

- 52% independence
- 41% feeling of accomplishment
- 39% money
- 31% job security
- 18% closeness of family
- 12% something to leave to children

Top three business goals

- 76% maintain profitability
- 65% serve customers well
- 37% provide security for family members
- 30% provide security for employees
- 18% keep business in the family

Nevertheless, of those who had decided what to do with the business in the future, a large majority indicated an intention to keep the business in the family.

Future of the business

- 46% keep in family
- 10% sell all
- 5% sell part
- 5% take it public
- 35% not sure

A desire to keep the business in the family in future generations is also evident in other surveys. The MM surveys asked if the respondent intended to pass ownership to close relative(s).

Intention to pass ownership to close relative(s)			
	1993	1994	1995
Yes	65%	57%	64%
No	23%	31%	20%
Unsure	11%	12%	16%

In the PC 98 survey, 43% of respondents said they intended to keep the business in the family. 11% said they did not, most commonly because there were no children in the next generation (7%). 21% of respondents were undecided, and 25% did not give a response, suggesting that they were also undecided or unconcerned with the issue.

The results of the PC 98 study are interesting when split by age. Companies led by older individuals are more likely to intend to keep the business in the family and, not surprisingly, are less likely to be undecided. In companies where the oldest active family member is over 60 years of age,

- 71% said they intend to keep the business in the family, while
- none said that they do not.
- 14% were undecided, and a further
- 14% did not respond.

In companies where the oldest active family member was between 40 and 59,

- 30% of respondents said they intend to keep the business in the family,
- 20% said they do not.
- 30% had not decided, and
- 20% did not respond.

Where the oldest active family member was under 39,

- a third said they intend to keep the business in the family,
- another third were undecided, and
- the final third did not respond.

Succession planning

Over the past few years, surveys have indicated that a high number of retirements among family business leaders can be expected in the near future, emphasizing the importance of this issue.

	MM 93	MM 94	MM 95
% who intend to keep the business in the family	65	57	
Of those, current leader is expected to retire: - Within 2 years	7%	7%	
- Within 5 years	15%	17%	28%
- Within 10 years	30%	30%	25%
- In 10+ years	44%	42%	31%
- Don’t know/refused	5%	4%	16%

Despite the indications that succession is a timely and important issue, the various studies suggest that written succession plans are not common among family business owners. There are a number of factors, however, that influence the likelihood of having a written succession plan, such as age, future intentions, revenue and generation.

In the FB 90 survey

- 56% had no succession plan.
- 20% had a plan for ownership and management,
- 18% had a plan for ownership only, and
- 6% had a plan for management only.

One possible reason for this lack of planning is the fact that 35% were not sure if the business would remain in the family. This survey indicated two factors that are related to the existence of a plan.

First, revenue plays a role.

- Among businesses with revenues less than $5M, only 28% had a plan,
- while businesses with revenues over $5M were far more likely to have a plan (60%).

Second, different generations have different degrees of preparation. One third of first generation leaders had a plan, while one half of second generation leaders did.

In the MM 93 survey, only 21% of all owners had a written succession plan. As in the FB survey, several factors influence the likelihood of having a plan.

Age is one such factor.

- 41% of owners over age 65 had a written plan, while only
- 25% of those aged 50-64 did.

Surprisingly, this survey found that

- larger businesses (250+ employees) were less likely to have a written succession plan (10%) than
- smaller businesses (23%).

A third relevant factor in this survey was the future of the business. Those who intended to pass the business on to another family member were slightly more likely to have a written plan (25%).

The percentage of leaders who have a succession plan appears to be increasing. The MM 94 survey revealed that 28% of all owners have a written plan (up from 21% the year before). The 1995 survey showed that 44% of those intending to keep the business in the family had a formalized succession plan.

Respondents in the PC 98 study indicated that the second generation is more likely to have a written plan because of their own experience of taking over, often in the absence of an adequate plan. This would suggest that written plans should become increasingly common over time, as more second generation family members take over.

Respondents in the PC 98 study indicated that more planning would be done in addition to a succession plan. Types of planning most often cited were: business, family participation, management, personal financial/retirement and career development. This reflects the trend toward the process of continuity planning and away from succession planning as an event.

Choice of successor

Obviously, an important part of succession planning is the selection of a successor. More leaders have chosen a successor than have completed a written succession plan, but the numbers suggest that planning is far from complete.

The MM 93 survey suggests that, as with written succession plans, those who intend to keep the business in the family are more likely to have chosen a successor. Of those respondents intending to keep the business in the family,

- 54% had chosen their successor,
- 22% were considering several, and
- 22% had not yet considered a successor.

Of those who did not intend to keep the business in the family, however,

- 44% had chosen a successor,
- 22% were considering several candidates, and
- 30% had not yet considered the question.

The MM 94 survey clearly indicates a greater degree of planning for transitions that are expected earlier.

- Of respondents who expected to relinquish control within five years, 74% had chosen a successor.
- This percentage dropped to 57% of those intending to relinquish control within 10 years, and
- to 37% when those who intended to relinquish control in more than ten years were questioned.
- In most cases (85%), the chosen successor has been informed, but people other than the successor are less likely to have been informed (67%).

The choice of successor also appears to be related to age. The MM 97 survey found that of respondents intending to retire within five years,

- 32.6% of those aged 61 and over had not chosen a successor.
- Of those aged 56 to 60, 43% had not chosen a successor.

Pervin & Company Market Survey Questions

Section 1: General

Company:
Contact:
Date Completed:
Action:

Section 2: Unique Issues

Would you comment on the family related issues that you believe are unique to your environment (select):

- The introduction of outside investors
- Professionalizing the business
- Second and third generation involvement which often includes siblings and cousins with large age differences - who might be active or inactive
- Transition from one generation to the next or intergenerational control
- Expanding the business size or changing strategic directions
- Capital investment
- Non-family members in decision-making positions
- Problems due to divorce, rivalry or separating home from work life
- Others you can probably add to the list

Section 3: Information

Where do you currently get information specific to family business: (specify)

- Publications
- Trade organizations
- Seminars
- Accountant
- Lawyer
- Other Professional advisors
- Chamber of Commerce
- Associations or organizations like:
  CAFÉ, Toronto or elsewhere

Family Firm Institute (FFI), Boston
Center for Family Business, Waterloo or local university-based Family Center
Montreal Institute of Family Enterprise (IFE)
Pervin & Co.

What benefits do you derive from these sources/affiliations?

Any successful business has advisors like accountants and law firms. Family businesses sometimes also have a consultant specializing in issues associated specifically with family concerns. When you need to address family issues, whom do you generally call for assistance?

Some family businesses choose consultants who are affiliated with their legal or financial advisor, others prefer completely independent relationships. What is your general preference? Any particular reason?

When you select your advisors, do you prefer long term relationships or more of a project type of relationship?

Section 4:

To better understand your situation, would you please tell me:

Your position in the business: ______________________

Your ownership status: __% Total number of owners: ______

# of family members active in the day to day business activities: _______

# of family members indirectly involved ie. board members, spouses etc.____

# of generations currently involved in the business:______

in ownership: _______ Is the founder still involved: _____ actively: ____

If not, what generation is involved in relation to the founder (2nd, 3rd etc.) __

Is it the goal to keep the business in the family into future generations: _____

Does your business have a board of directors? ____Total #____ # family ___

Advisory Board? _____ Total #_______ # family ________

Family meetings/council? _______ Involving all generations/active/spouses? __

How often does the family (council) meet? ________

What is generally discussed? _________________________

Section 5:

Would you be interested in a facilitated discussion group consisting of family business owners with business interests specific to yours?

If yes, what specific topics would be of value to you? Here are some to choose from:

- Family meetings
- Assessing the skills of family members and placing them in the right career path
- Entrepreneurial and professional skills -- how do they complement/compete?
- Family relationships, decision making
- Shareholders, ownership and estate planning
- The family charter or creed
- Business & family: living and working together

Section 6: General information

of employees 0-25___ 50-100____ 100-500 ____ 500+ ____

Revenue $1-5M ______ $6-$10M ______ $11-$15M____ $16-20M_____$21M+_____

years in business 0-5____ 5-10____ 10-25_____ 25-50____ 50+

Key lines of business

Age range of family members involved in the business:

Confirm name, title, mailing info, phone/fax/email/web site

Thanks very much for your contribution.