International School of Management

Program

742-MSGR Managing Strategic Risks

Final assignment: "Managing Strategic Risk in Family Owned Business at time of First Generational Shift".

By Laurent Dorey

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John J. Hampton

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Abstract:

Family Business is a dominant form of corporate ownership in the world. Their fame and size differ grandly, where some of the world most famous companies and brand names are Family Owned Business (FOB).

FOBs characterizes in seeing extreme longevity in the tenure of their CEO, with a not uncommon reign of 20-25 years, and a total commitment to their businesses. Further to that, the unique bundle of resources created through the complex interactions between family members, the family unit, and the business, the "familiness of the firm", constitutes a unique competitive advantage.

Yet, what may constitute their superior strength can also prove their strongest weakness. Family businesses are highly idiosyncratic. Unlike in other firms, the institutionalization of the idiosyncratic knowledge of the business tends to be lacking in family businesses. Transmitting it, is a complex 4-phase process (initiation, integration, joint reign and withdrawal), during which the roles of the predecessor and successor evolve in an interdependent way. At time of transferring, the incumbent shall learn to move away from the role of being the "abusive father" toward being the "protective father" and learn to "let go". What constituted her/his unique management skills (leadership) can becomes an obstacle to founders who possess only start-up skills and can eventually become a "burden for a growing family firm, when other types of skills are needed (management), such as skills to delegate".

Indeed, average life expectancy of family firms is estimated to be 24 years, which is also equivalent to the average tenure of their founders. It is thus alarming to note than less than one-third of family businesses survive the transition from the first to the second generation.

In order to provide with a multi-dimensional answer to the question; "what may constitute the main categories of risks to be managed in Family Owned Business (FOB), at time of first generational shift?", I have selected to identify and gather the different magnitudes of risks facing a FOB, while categorizing them, linking each to their main owner/s, and assessing their impacts on the transfer appropriateness and business consequences.

Twelve risks were identified as follows: No succession planning, Generational shadow, No contingency plans, Improper selection process, No grooming Process, a Weak Management Board, an Even shares split scheme, a Monarchial Management, an Absolute CEO, a Non-functional family council, Family feuding and Family public disavowing.

Out of these, I have then chosen to draw a "Risk Identification Map", positioned, weighted and successively detailed each risk on a modified "Risk Heat Map", with the final aim of filling a modified "Riskiness Index" for Family Owned Business at time of first generational shift.

Of the 12 identified risks, 7 were assessed as either being Major or Significant risks, while 8 to 10 were to be found in the "(risk) heat zone", where 8 of them, were associated as being under the whole, or shared, ownership of the incumbent.

It is therefore of prime importance that the incumbent understands the need to grow a business by "managing" it as well, that is preparing concurrently for the future's future. Incumbents are tantamount to the success but also to the failure of their business, often avoiding any strong counterweighting scheme to their overall reaches in the business.

Learning to let go, planning for its succession, while growing a business and a family may in itself appear as a paradox. Yet in the absence of such a forward thinking, statistics will keep showing a 70% death rate of Family Owned Business at time of first generational shift.

Introduction

Family Business[1], also called Family Owned Business, Family Firm, or Family-owned company, have the specificity that, beside the very nature of their ownership and governance[2], they are operating in business with the aim of conducting an effective "business succession"[3] at a later stage, with a focus on keeping the majority of the voting stocks[4] in the controlling hands of the (founding) family.

A dominant form of corporate ownership in the world (80-90% of businesses in North America, 75% in the United Kingdom and 80% in the Philippines[5], 70% in Australia[6], 45-65% in Western Europe[7]), their fame and size differ grandly. Some are of very large scale and span, where some of the world most famous companies and brand names are family owned businesses, while their overall weight in the local Gross Domestic Product (GDP) and employment of labor forces, shows their somehow limited sizes (e.g. 30-60% of GDP in the USA and 45-65% employment of labor in Europe), as gathered by Allouche & Amam (2003). Another key fact about Family Owned Business (FOB) is the extreme longevity in the tenure of their CEO with a not uncommon reign of 20-25 years (comparing to 6 years on average for their publicly owned counterpart, as shared by Stalk and Foley (2012).

What may constitute their superior strength (stability of ownership and management) and a total commitment to their businesses (Baumert, 1992), can also prove, more often than not, their strongest weakness. Indeed, "average life expectancy of family firms is estimated to be 24 years, which is also equivalent to the average tenure of their founders (Beckhard & Dyer, 1983).

That is where, discovering that less than one-third of family businesses survive the transition from the first to the second generation, as shared by Gallo (2013), came a bit as a "shock". This led me selecting to look further into the issues at hand and raise the question of; "what may constitute the main categories of risks to be managed in Family Owned Business (FOB), at time of First generational shift?"

As such, and in order to provide with a multi-dimensional answer to the above question, the present document will aim at gathering (while adapting their definition to the case) the different Magnitudes of risks facing a FOB (Major[8], Significant[9], Moderate[10] and Minor[11]), as defined by Hopkin (2013),

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[1] "A business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families". Chua et al. (1999).

[2] "Procedures and processes according to which an organization is directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the organization – such as the board, managers, shareholders and other stakeholders – and lays down the rules and procedures for decision-making". European Central Bank, 2004, Annual Report: 2004, ECB, Frankfurt, Glossary. Retrieved January 14, 2014, from http://stats.oecd.org/glossary/detail.asp?ID=6778

[3] "Family business succession is the process of transitioning the management and the ownership of the business to the next generation of family members". Source: KPMG - Family Business Succession Managing the All-Important Family Component. Written by Grant Walsh. Retrieved January 12, 2014, from https://www.kpmg.com/ca/en/services/kpmg-enterprise/centre-for-family-business/documents/3468_succession.pdf

[4] "Voting stocks are equity/shares that give voting rights to the holder. These can either be "listed voting stocks" (that is, equity/shares that are listed on an official stock exchange), or "unlisted voting stock" (that is, equity/shares that are not listed on a official stock exchange". European Central Bank, 2004, Annual Report: 2004, ECB, Frankfurt, Glossary. Retrieved January 14, 2014, from http://stats.oecd.org/glossary/detail.asp?ID=2885

[5] *Astrachan, J. H. & Shanker, M. C. (2003), Family Businesses' Contribution to the U.S. Economy: A Closer Look. Family Business Review, 16: 211-219. Retrieved January 14, 2014 from* http://onlinelibrary.wiley.com/doi/10.1111/j.1741-6248.2003.tb00015.x/abstract*.)*

[6] KPMG and Family Business Australia Survey of Family Businesses 2009 (in conjunction with Bond University)

[7] Allouche, J. & Amann, B. (2003). *L'actionnaire dirigeant d'entreprise familiale*, Revue Française de Gestion 28(141): 109–130.

[8] "Major loss of service, including several important of service and/or protracted period of severe disruption in excess of five days, with major impact on achievement of several key targets and objectives".

linking each to their main owner/s, while categorizing them (as *Facts*[12], *Beliefs*[13], *Feelings*[14], *Opinions*[15], *Assumptions*[16] *or Bias*[17]*)*, as defined by Hampton (2013), and assessing their impacts on the transfer appropriateness and business consequences.

For achieving that goal, our initial step will be to draw a Risk Identification Map (Hampton, 2013), which will successively be duplicated, with each risks positioned on a modified Risk Heat Map (Manoj, 2013), with the final aim of filling a modified Riskiness Index (Hopkin, 2013), for Family Owned Business at time of first generational shift.

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[9] "Complete loss of an important service area for a short period or a significant effect on services in one or more area for a period of weeks with significant impact on achievement of a key target or objective".
[10] "Moderate effect of an important service area for a short period and/or adverse effect on services in one or more area for a period of weeks with moderate impact on achievement of one or more targets or objectives".
[11] "Brief disruption of an important service area and/or minor effect on non-crucial service area resulting in disruption for less than one day with minor impact on achievement of targets".
[12] "Empirical data or observable phenomenon supported by evidence".
[13] "Combination of fact and interpretation of people and activities".
[14] "Emotions that intensify or diminish facts or beliefs".
[15] "Judgments masked as facts, beliefs and feelings".
[16] "Beliefs without reflection".
[17] "A pre-judgment that interferes with an objective perspective".

Risk Identification Map at time of first generational shift

More than just focusing on the succession process[18] which for me is due to start when the founder has initiated the first steps into transferring her/his company to the next member of the family, I have assessed that several risk factors could also be identified prior to the decision taking. The absence of a formal decision to initiate a succession planning, will for instance constitute the very first major risk which may impact both the transfer appropriateness and the business consequences, as we will see in details, below.

Colli (2012), has identified "survival, longevity, embeddedness, reputation and sustainability", as the five main key elements in assessing the transgenerational continuity performance in family business, which for me encompasses both the appropriateness and consequences on transferring a family business successfully. Yet in my assumptions, three key sources (ownerships) of risks are identified (Incumbent, Management Board, Family Members) with direct or relative risk incidences on the Family Owned Business (FOB).

Figure 1 maps the 3 sources of risks identified at time of generations shift, while assessing their magnitude (Hopkin, 2013) and direct or relatives incidences on the FOB.

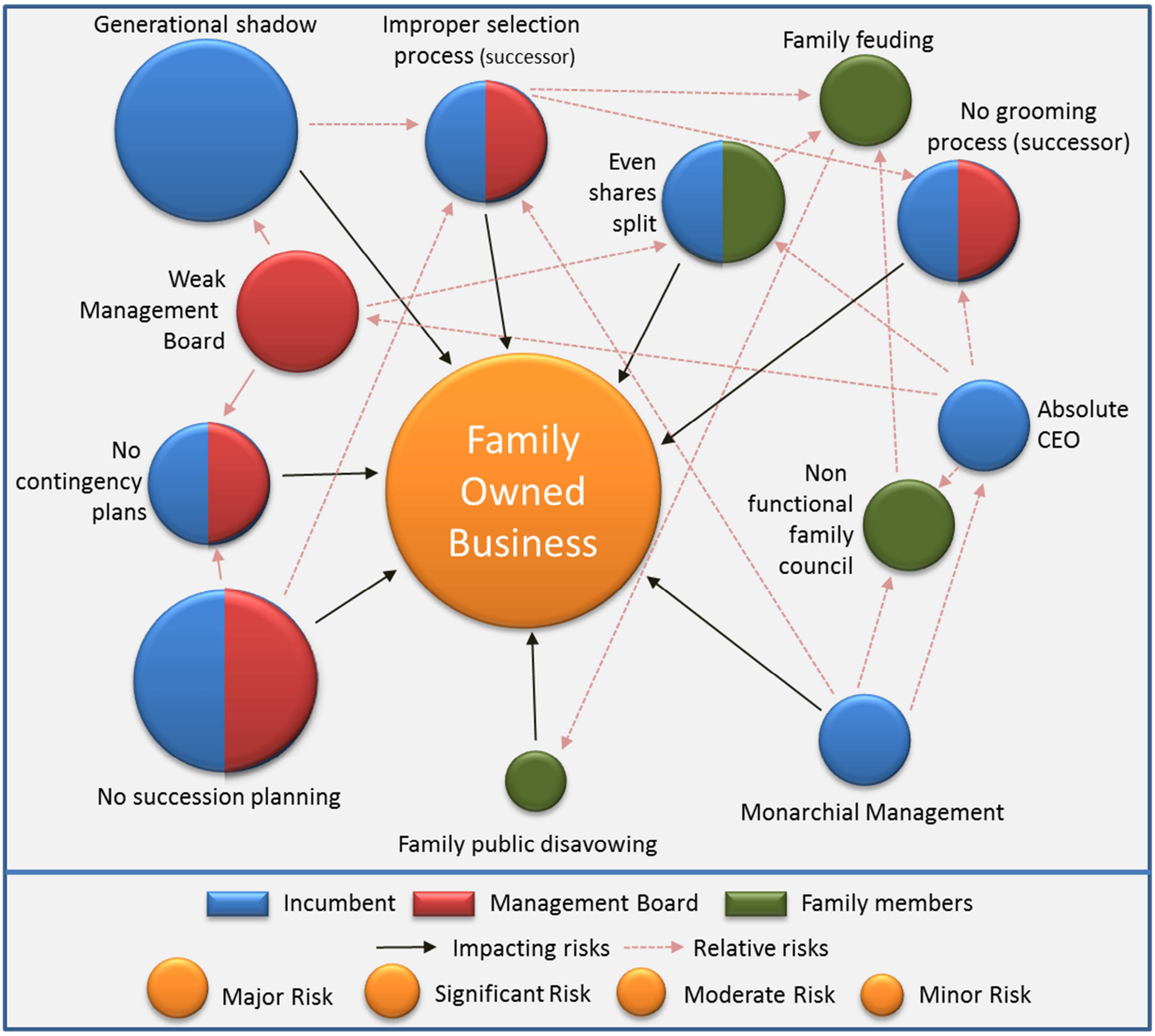

Figure 1: Family Owned Business Risk Identification Map at time of generational shift

We will use the map as a working frame for our Risk Analysis of Family Owned Business, at time of first generational shift, detailing each of the twelve identified risks.

[18] The succession process is defined as the actions, events, and developments that affect the transfer of managerial control from one family member to another (Sharma et al., 2001).

No succession planning

Even though "management succession is seen by the family business leaders as the most important issue" (Chua et al., 2003), the incumbent's[19] inability to let go is the most cited barrier to effective succession (Sharma et al., 2001). The absence of a succession plan can cause serious management problems, even leading to a business failure (File & Prince, 1996), even if De Massis et al. (2008) don't necessarily associate it with failure, this notion being relative to goals achievement, them changing during the time of the succession process.

Indeed, "passing the baton", timing it right, not too early nor too late, is of the utmost importance (Chrismam et al., 2009), while Shulman (1991) is of the opinion that a timing of 5 to 20 years is required for the family business to start thinking about transferring ownership and managerial responsibility. Cadieux (2007) describes it as a complex 4-phase process (initiation, integration, joint reign and withdrawal), while Beyrouti (2010) shared that "company founders face psychological factors that prevent them from planning successions, since it may mean a letting go of power".

The Family Business Institute[20] assesses consequently the lack of planning as to why only about 30% of family businesses survive into the second generation, and list 9 reasons (no urgency, false sense of security, push back by family members/employees, safer not to change, unknown point to start, lack of courage in next generation, unfairness from senior generation, succession seen as an event not a process, cost too high) why incumbents fail to do succession planning. It is then interesting to note that "if the transition results in anxiety and stress for the outgoing CEO" as cited by Kansal (2012), its non-planning will add to the level of stress, and power will be kept in her/his hands, which may lead to a series of factors favoring failure of the entire business. In some cases, "pressure on the business will also mean that their wealth and/or company survival will require the implication of the founding father, focusing on a short term solution, rather than on a longer term planning", as stated by Duffy (2011). De Freyman and Richomme-Huet (2009), call this phenomena a "cognitive dissonance" whereas transfer of the firm's social network is altered by the still active presence of the incumbent ("the strong link") refusing to "leave her/his clothes of leader", which can be based on a lack of trust and sharing, as well as an aversion for delegation or a permanent feeling of mourning.

On the other side, when looking at female incumbents, Higginson (2010) showed that consensus has been reached on the fact that women "tend to focus more carefully on succession planning, are less hierarchical, seek more information, and are more apt to look to outsiders for input when making succession decisions".

Consequently, the absence of a succession planning can be assessed as a **Major** risk, of the *BIAS* category, where the incumbent's, and the board's, unwillingness to initiate the process (starting planning for it will initiate her/his "removal" from the company), will highly impact the transfer appropriateness (rendering the overtaking more hazardous), while business consequences will be high (hastiness), and dramatic, for the further conduct of the business.

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[19] Adjective: [attributive] (of an official or regime) currently holding office. Retrieved January 14, 2014, from www.oxforddictionnaries.com.

[20] Retrieved January 14, 2014, from http://www.familybusinessinstitute.com/index.php/2013-articles/the-nine-reasons-family-businesses-fail-to-do-succession-planning.html.

Figure 2 positions the absence of succession planning on the Family Owned Business Risk Heat Map, weighting the risk at 3x3, that is 9, a major risk.

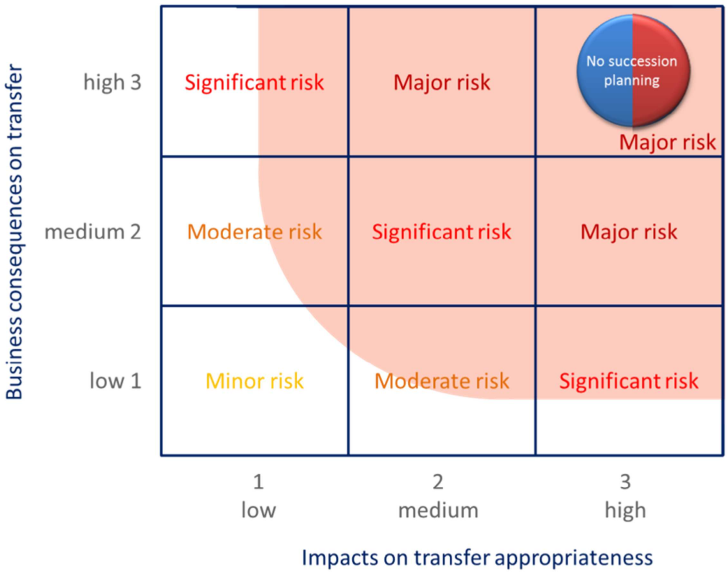

Figure 2: Family Owned Business Risk Heat Map – absence of succession planning

Generational shadow

At time of retirement, the founder will often feel a complex sense of "loss of identity and powerlessness", due to her/his closeness to the business and associated social standings. Letting go her/his own creation will be a symbolic, if not physical, death, as explained by Fattoum and Fayolle (2009), even going so far as "mourning" her/his company (De Vries, 1998), afraid of the newer generation rejection of the past.

It does appear clearly though that "generational shadow can prevent succession" (Davis & Harveston, 1999) and represent a threat for the business. Indeed moving from a position of a Leader (pursuing change) to a Manager (pursuing stability), as shared by Hampton (2013), will be a difficult step to reach, as influence on the major decisions shall lessen with time and overtaking by the new generation. It is thus important that the incumbent readies her/himself to move toward a role of "supervisor, while the successor is learning, and as collaborator when the successor has acquired the skills needed to lead the firm independently", as indicated by Cadieux (1999).

That is also why a detailed (written) plan and definition of the incumbent's new role/s, and consequently the successor's official appointment and undisputed managing role, shall be made clear toward stakeholders (family members, employees, business partners), while refusing to concurrently play her/his former and newer role, to the detriment of the newer generation, as stated by Chrismam et al. (2009).

Consequently, the still leading presence of the incumbent at time immediate post transfer can be assessed as a **Major** risk, of the *FEELING* category, where the incumbent reinforces her/his undissociability with the business. It will highly impact the transfer appropriateness (irreplaceability), with high level of business consequences met, seeing the founder aiming at keep shaping the business to her/his own liking (confusing stakeholders), unconcerned with the transition to the new generation.

Figure 3 positions the Generational shadow on the Family Owned Business Risk Heat Map, weighting the risk at 3x3, that is 9, a major risk.

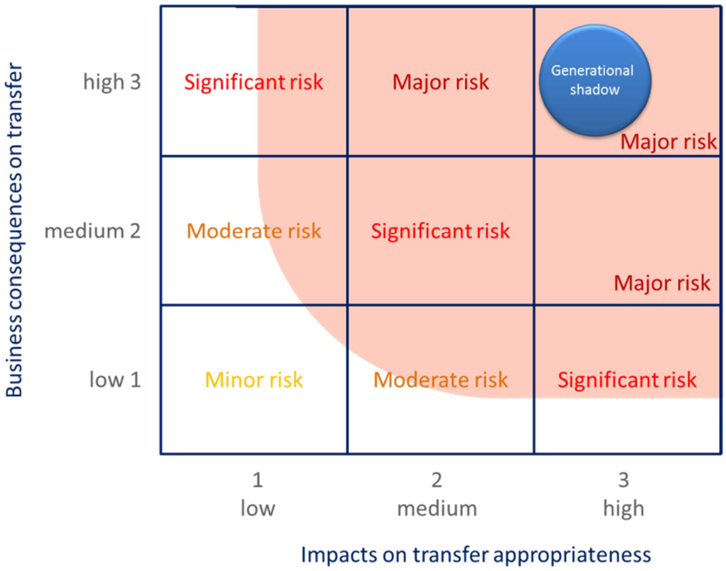

Figure 3: Family Owned Business Risk Heat Map – Generational shadow

No contingency[21] plans

Lanier (2013) suggests running a SWOT (Strength Weakness Opportunity Threat) analysis, "aiming at defining the business model deficiency within control of the company, allowing for the business to react quickly and mitigate the risk". Indeed, even though they are by nature difficult to predict, the absence of a well-planned, and exhaustive, succession plan may be all the more needed when sudden dramatic events occur, temporarily or permanently, incapacitating either the incumbent and/or the successor. Handler and Kram (1988) stress that "succession might be prevented if the potential successor dies or becomes ill", while Duffy (2011) cites that more than just direct incapacity on incumbent and successor, "unexpected exit of a potential successor" can enlarge the issue of succession to conflicts, rivalry and lack of trust between family members.

As such a contingency plan, aiming at envisioning the possible events and planning for their undertaking, will let a crisis management plan unroll and limit damages to the fundament of the business. De Massis et al. (2008) citing unexpected loss of potential successor and of the incumbent, plus the personal sense of attachment of the incumbent with the business, as being among the six factors preventing intra-family succession in the family firm.

Consequently, the lack of a contingency plan can be assessed as a **Significant** risk, of the *ASSUMPTION* category, where the incumbent, and the board, will "hide" behind the low probability of such events (believed uncertain to occur), with medium to high impact on transfer appropriateness (non-planned damage control), with medium to high business consequences of the events (crisis) adding extreme ad-hoc pressure on the business to handle the situation, and risks of seeing the business stopping on its track for a while, or for good.

[21] Noun : a future event or circumstance which is possible but cannot be predicted with certainty. Retrieved January 14, 2014, from http://www.oxforddictionaries.com.

Figure 4 positions the Absence of Contingency Plan on the Family Owned Business Risk Heat Map, weighting the risk at 2x2, that is 4, a significant risk.

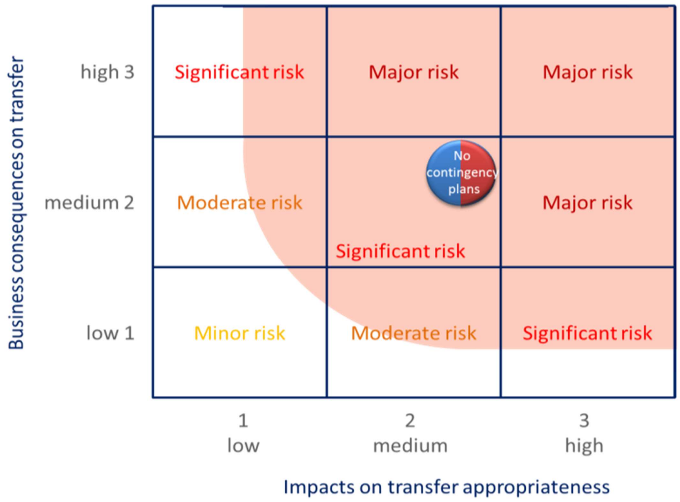

Figure 4: Family Owned Business Risk Heat Map – No contingency plans

Improper selection of successor

When proceeding to the selection of a successor, the incumbent will assess her/his options with family members or with outside agents. Of the first, the noun nepotism[22] may rapidly come to mind, an option which has been assessed as "posing a serious problem for the family firm" (Pollak, 1985), while deserving "the firm's shareholders as a group" (Barach et al., 1988). Outside agents refer to the hiring of a manager on the "market" at a "market price" and as an answer to an "opportunity".

It is thus interesting to note that next of kin succession will promote a new manager who will be less opportunistic, in general, as compared to an outside agent (Klein et al., 1978), due to the strong presence and adherence to family beliefs, values translated into cultural norms and loyalty (Pollack, 1985). Furthermore family businesses are highly idiosyncratic[23] (Williamson, 1979) and, "unlike in other firms, the institutionalization of the idiosyncratic knowledge of the business, tends to be lacking in family businesses. It is often individual specific rather than firm specific and may be accessible only to family members and trusted agents", as cited by Lee et al. (2003). To that, Rosenzweig and Wolpin (1985) stress that "hiring agents of known high ability and risk to profitability, to key executive positions, will in due time increase appropriation risk from the agent who will have gained crucial idiosyncratic knowledge and may leverage it inside of the business by transaction". In the long run Smith and Amoaku-Adu (1999) showed that "nonfamily successors have negative stock performance due to high level of turnover of senior management that these firms experience after succession", linking performance of the manager to the loyalty of the senior managing team.

Higginson (2010) further gathers eleven "relational factors and knowledge transfer", that will facilitate the knowledge transfer process where Habbershon (2006) defines as the "familiness of the firm", the unique bundle of resources created through the complex interactions between family members, the family unit, and the business, as complemented by Chrisman et al. (2005). This "familiness", to which Ensley and Pearson (2005) add "that it is a set of skills to handle the conflicts and to achieve a consensus in strategic decision making" and has appeared in the literature as a possible explanation of the competitive advantage of family firms (Habbershon & Williams, 1999).

The choice of a successor having also more to do with the family's values than with the chosen successor's capabilities, past performance will not impact on the choice of an internal or external successor. To which Lee et al. (2003), confirms that "succession decisions may often be based on the

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[22] Noun: [mass noun] the practice among those with power or influence of favouring relatives or friends, especially by giving them jobs. Retrieved January 14, 2014, from http://www.oxforddictionaries.com.

[23] Adjective: relating to idiosyncrasy; peculiar or individual. Retrieved January 14, 2014, from http://www.oxforddictionaries.com.

family's needs rather than on business requirements, causing serious problems when the two are not compatible".

While choice of a successor between an internal or external candidate to the family, may appear unrelated to her/his gender, in noticeable parts of the world, as exemplified in India, by Kansal (2012), and as supported by Hofstede's quantification of culture (Hofstede, 1987-2009), the cultural aspect of the country will be reflected in the process of choosing a successor, India having for instance a high Masculinity Index, favoring clearly the choice of a male heir to the business.

Zaudtke and Ammerman (1997) adds however that, in the absence of a clear successor, "a family could resolve its dilemma by following the seat-warmer strategy - that is, appointing an agent temporarily and replacing that agent once a suitably qualified offspring is available". When no suitable qualified offspring is available, family may keep the business within their hands by handing it over to an agent who is absorbed into the family as a son-in-law, provided that this arrangement is mutually acceptable to the family and the agent. It is therefore, a point in case, to be open to "broadening your search beyond the next of kin, rank possible successors based on key criteria and groom the next generation with a non-family leader", as stated by Lang (2013).

Consequently, an Improper selection process can also be assessed as a **Significant** risk, of the *BELIEF* category, where the incumbent and the management board, will not fathom the need for a thorough and rationale picking of a successor (lineage), which will have a low impact on the transfer appropriateness (short term), with high level of business consequences, unrelated to the choice of the successor (a highly able external agent will be opportunistic, while a member of the family may be of lesser ability) adding further pressure to the need for a grooming and/or monitoring process, or running the risk of seeing the business values being altered altogether.

Figure 5 positions the Improper selection process on the Family Owned Business Risk Heat Map, weighting the risk at 1x3, that is 3, a significant risk.

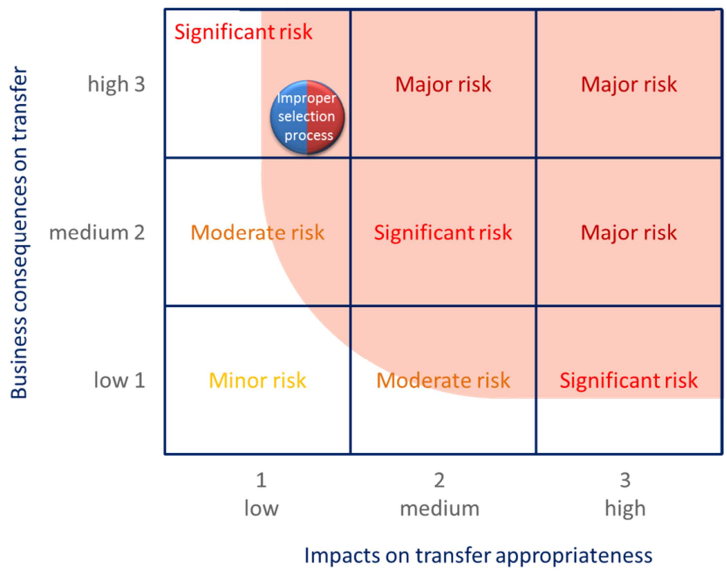

Figure 5: Family Owned Business Risk Heat Map – Improper selection process

No grooming process

Kansal (2012) states that "for a successful transition and succession planning it is important that process of retirement be as planned as the process of grooming the new CEO" and a horizontal form of leadership (in contrast to vertical form) may be positively related with succession outcomes in leadership dimension, as indicated by Štangej (2013).

Lansberg (1999) suggests that owners and successors can construct a cognitive foundation by working together to define a "shared dream" for the firm, while "face-to-face interactions are especially important when the goal is transferring complex, tacit knowledge and there is strong potential for distortions in the communication process" (Lane & Lubatkin, 1998) – a frequent occurrence in many families due to the "generation gap."

For that purpose, interim leaders can be brought in with the aim of coaching as well the next generation, or form an internal advisory board "of people who have knowledge necessary to help grow the company and where they can serve as mentors and coaches for the next generation", as cited by White (2007). Many family businesses depend on nonfamily employees for the company's continued success though, especially at time of consolidating. To guard against financial loss due to the absence of an indispensable key employee, many companies take out key employee life insurance, disability insurance, or both (Giarmarco, 2012).

As shown by Mischel (2011), the Bernelli Entrepreneurial Learning Model™ (BEL 5+5+5 Model) proposes that children exposed to family business need to obtain five skill groups (self-starting, people, marketing, money and leadership skills) while they encounter five stages as they grow and develop (business exposure, hands-on experience, broadening experiences, formal entry into a career and leadership opportunities) and that there are five steps parents and role models can provide (continuity, presentation of business problems and solutions, meeting and greeting other entrepreneurs, networking with advisors and resources with a recap of each experience with the child), to encourage learning and give children what they need to fully acquire the process of entrepreneurial thinking.

Consequently, the absence of a Grooming process can also be assessed as a **Significant** risk, of the *OPINION* category, where the incumbent, and the management board, will have to transfer, in orderly manner, intangible family assets and values to her/his successor which, in its absence, can have a low to medium impact on the transfer appropriateness ("familiness"), with medium to high business consequences (idiosyncratic knowledge) defining the need to enlarge the "transfer scope" to other senior and/or experienced managers, following a due process.

Figure 6 positions the absence of a Grooming process on the Family Owned Business Risk Heat Map, weighting the risk at 1x3, that is 3, a significant risk.

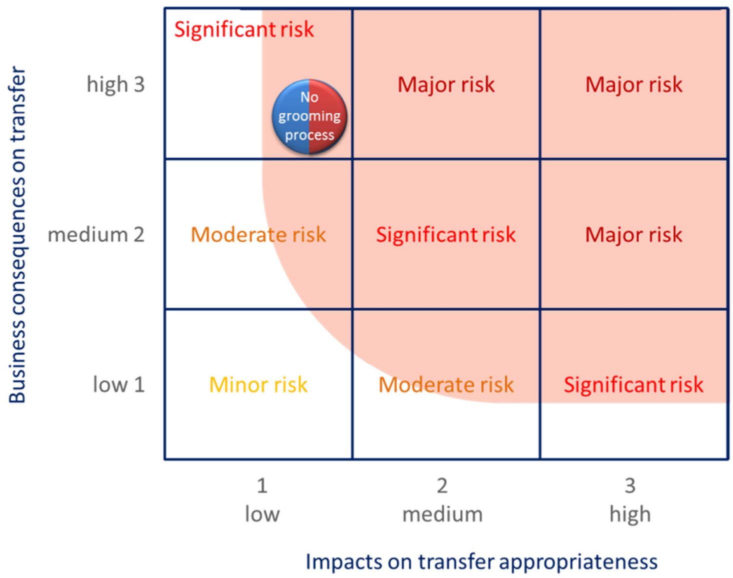

Figure 6: Family Owned Business Risk Heat Map – absence of a Grooming process

Weak Management Board

In many Family Owned Business (FOB) the management board, or board of Directors, comprises friends or family members who are disinclined to question the leader's tactics, can be seen as rubber stamping many decisions, while not voicing any disagreement, especially in front of "imposing" CEOs. As stated by the COSO (Committee of Sponsoring Organizations of the Treadway Commission) Enterprise Risk Management - Integrated Framework (2004); "Enterprise risk Management is a process, effected by the entity's board of directors, management, and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within the risk appetite, to provide reasonable assurance regarding the achievement of objectives". A weak Management Board will then not act as per its design and will shadow play the role expected by its affiliates (e.g. employees, customers, suppliers…).

Consequently, the presence of a Weak Management Board can also be assessed as a **Significant** risk, of the *BELIEF* category, where the incumbent should allow for facing more challenging positions, which can have a medium to high impact on the transfer appropriateness (consensus building), with medium to high business consequences (new business paradigms) underlining the need to reach for broader consensus at time of key decisions to be implemented by the new generation.

Figure 7 positions the presence of a Weak Management Board on the Family Owned Business Risk Heat Map, weighting the risk at 2x2, that is 4, a significant risk.

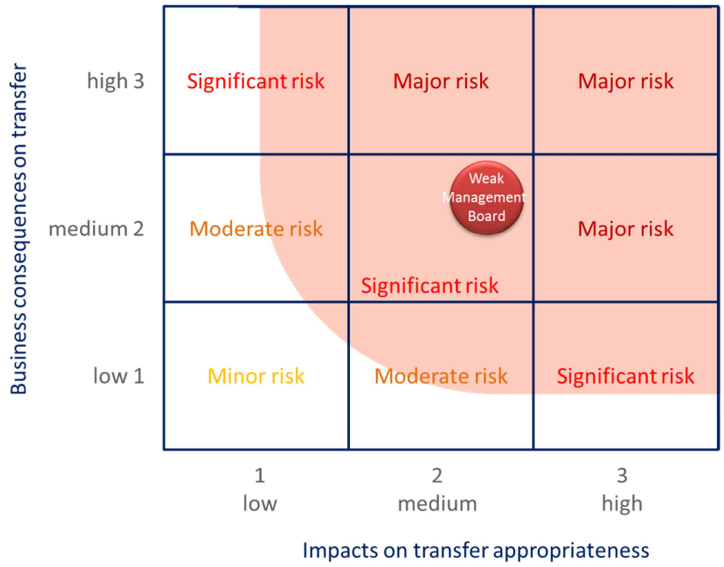

Figure 7: Family Owned Business Risk Heat Map – Weak Management Board

Even shares split

Sharing ones company, raises myriad of relational, emotional and family factors, which intertwine with the financial, legal, and business issues in business succession, cites White (2007). This issue can be brought upon completion either prior or after the death of the incumbent, whether sudden or somehow expected, and shall take care of active and inactive members of the family, whether spouse or descendants.

When planned ahead, one of the pitfalls to avoid is to consider and share stocks with each "successor" in a even manner. Indeed a fair split of the shares and/or the business value at equals will not necessarily take into consideration the higher risk (and reward to, or blame for) the active successor will have to take, as compared to passive ones, in continuing growing the business. Giarmarco (2012) argues that active children shall be left with voting options, while non-active will inherit non-voting ones, with put and call options. Majority of the shares remains within the family and/or business, and will be swapped at a previously agreed price and terms. Another argument from Giarmarco is to propose to build a trust where shares can be given (gift) to the next of kin and eventually avoid taxations at time of further heritage (so called "generation-skipping" trust) to the ensuing generation.

Equitable treatment can though be reached by way of life insurance, which will somehow redeem the non-active children and rebalance the overall financial handling, following the death of the incumbent, while providing active children with enough cash to pay estate taxes. A balance of cash splitting may as well help avoid the need for the active children to purchase the interests of the inactive children, perhaps at a time when the business may be unable to afford it.

Now taxation, and its funding, whether to face inheritance tax or to buy in the deceased partner's shares may lead to the sales of part, or whole, of the estate and/or business, if no plans have been drawn to face tax liability, whereas strategies such as the "gifting" strategies can legitimately lower any owner, partner or shareholder's tax liability, attests Battersby (2013)[24].

Additionally Battersby (2013) indicates that “a buy-sell agreement ("business prenup") can help pre-arrange for the sales between a seller and a buyer of interests, at a precise triggering moment agreed by both sides. Obligation is then made to buy the seller’s shares, at Fair Market Value (FMV), whether from the buyer her/himself or the business.

Consequently, an Even shares split scheme can also be perceived as a **Significant** risk, of the *FACT* category, where the incumbent, and family members, should plan for an optimal transfer of net wealth (to active and non-active successors), as it can have a medium to high impact on the transfer appropriateness (unbalanced heirs risks treatment), with medium to high business consequences (fire sale) underlining the need to optimize in due time the costs of heritage, contingency and of buying passive shareholders.

Figure 8 positions an Even shares split scheme on the Family Owned Business Risk Heat Map, weighting the risk at 2x2, that is 4, a significant risk.

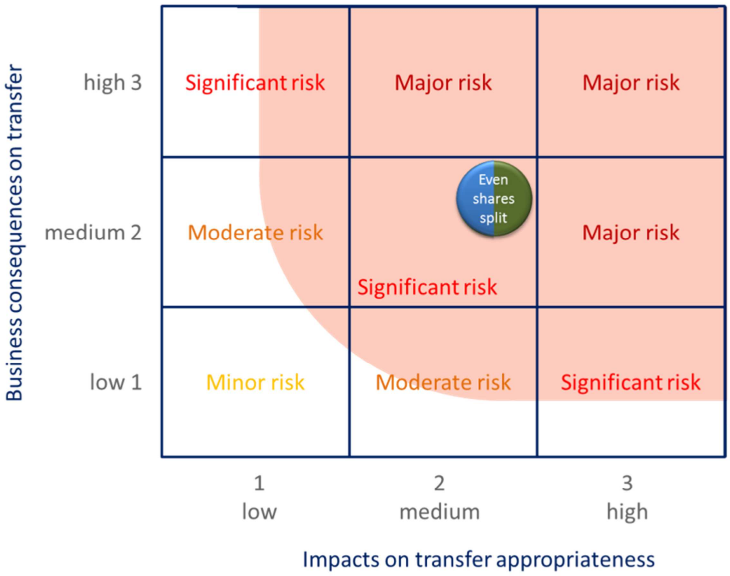

Figure 8: Family Owned Business Risk Heat Map - Even shares split

Monarchial Management

As in a constitutional monarchy, the monarch is the undisputed ruler while the "anointed" successor is first in line of succession and cannot be displaced from inheriting, except by death or a change in the rules of succession. In a family business, heritage of the top position should not necessarily be the sole prerogative of the CEO, as per the existence of a Board of Directors and/or a proper selection and grooming process of a successor. The sole choice of the next of kin shall therefore not be the only rule.

As cited by De Massis et al. (2008), “decision making in family businesses is not always rational owing to emotional attachments to the business and altruistic tendencies toward family members”. It is thus of prime importance that “one of the most important new roles assumed by the predecessors is that related to their new position as chairman of the board” - in other words, her/his role as administrator. The predecessor shall keep a right of veto that would allow to intervene if a decision is felt as being harmful to the firm”, Cadieux (1999) arguments. This translates into moving from a monarchial to a oligarchical style of Management, when transferring from the first to the second generation of management.

Another aspect in anointing an heir/heiress is the risk of relinquishing diversity, by enrolling the heir/heiress to specialize in the same aspect of the business as the previous generation. By doing so, next-generation managers fail to gain the cross-functional expertise needed for executive leadership. Close family members supervising one another, the personal dynamic can prevent candid feedback

[24] Battersby, M., E. (2013).Convenience Store Decisions. October 2013. Retrieved January 14, 2014.

and interfere with coaching, as shared by Stalk and Foley (2012), which leads to the need for a more open (to contradiction) management style.

Consequently, the presence of a Monarchial Management can also be assessed as a **Moderate** risk, of the *BELIEF* category, where the incumbent should accept and expect differences in skills and attitudes (generational gap), which can have a low impact on the transfer appropriateness (heir apparent), with medium business consequences (needs for forward thinking) underlining the need to reach for a different kind of management, in phase with the newer standard of business and requirements.

Figure 9 positions the presence of a Monarchial Management on the Family Owned Business Risk Heat Map, weighting the risk at 1x2, that is 2, a moderate risk.

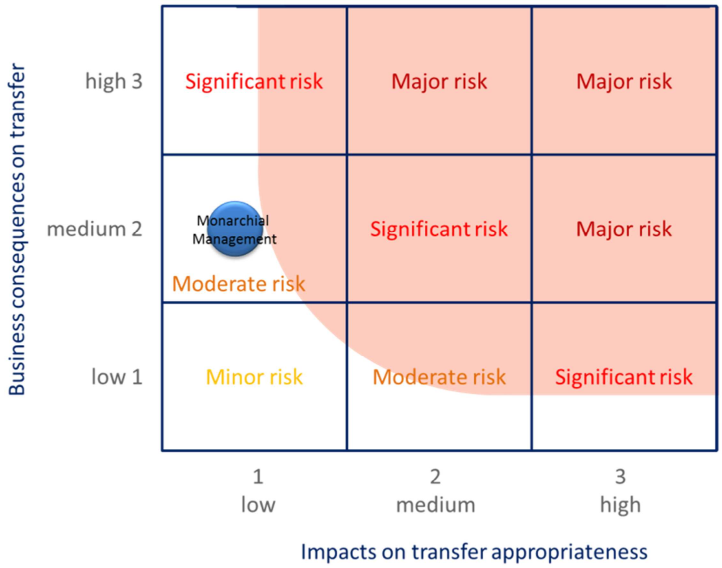

Figure 9: Family Owned Business Risk Heat Map – Monarchial Management

Absolute CEO

The paternalistic culture is the most common form in family business context where relationships are hierarchical and the leader holds all power (Fattoum & Fayolle, 2009). At time of transferring, the incumbent shall learn to move away from the role of being the "abusive father" toward being the "protective father", as stated by De Maricourt (1994). Kram (1985), cited by Cadieux, translating this into the "necessary change of role for the incumbent, toward one of a more protector kind", while Cadieux adds that "that is during the joint reign that some differences in perception and resistances to changes, occurred between the incumbent toward her/his successor".

Furthermore, long tenures at the helm, very often by the company founder, and prime innovator, may lead to difficulties in facing new paradigms, such as change in business rules, models, technologies and behaviors. Inception and initial growth stages, require the business to acquire its specific place on the markets and the "unique" charisma, network, clout and inbound "familiness" induced by its founding father are of tremendous help. Recent globalization, and emergence of new markets, are however threatening the leadership capability of Family Owned Business (FOB), as stressed by Stalk and Foley (2012). A lack of growth management skills can becomes an obstacle to founders who possess only start-up skills (Fischer and Reuber, 2003) and can eventually become a "burden for a growing family firm, when other types of skills are needed, such as skills to delegate" (Kansikas, 2008). It is then important for the incumbent to learn, and/or to be reminded of, that the family successor will never come to the business as competent, skilled and with the same level of knowledge, than the incumbent. It will require "a process of socialization and interactions with the people present, that the successor exposes himself to the requirements of the firm" (Fiegener et al., 1996).

Consequently, the presence of an Absolute CEO can also be seen as a **Moderate** risk, of the *OPINION* category, where the incumbent should learn to manage the business transfer rather than lead it (learning curve), which can have a medium to high impact on the transfer appropriateness (conflicts, demotivation, mistrust), with low to medium business consequences (one business) underlining the need for both sides to acknowledge, and accept, each other's strengths and weaknesses.

Figure 10 positions the presence of an Absolute CEO on the Family Owned Business Risk Heat Map, weighting the risk at 2x1, that is 2, a moderate risk.

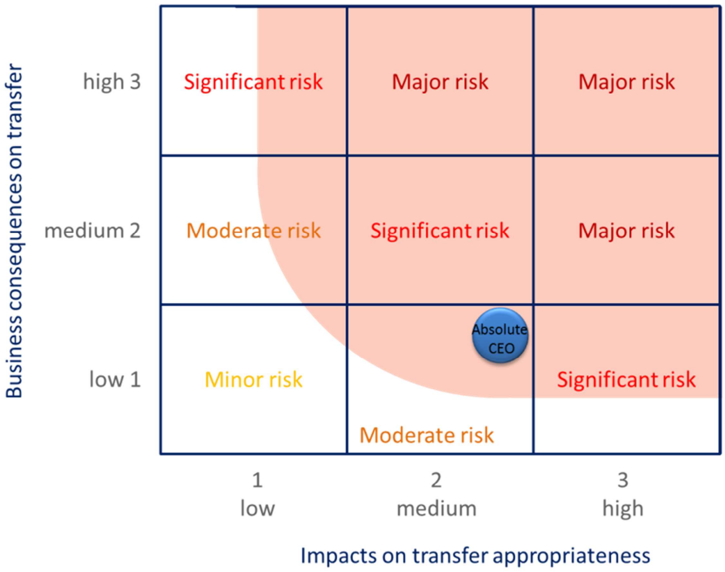

Figure 10: Family Owned Business Risk Heat Map – Absolute CEO

Non-functional family council[25]

As family size will grow in time, every new generation members will remotely or closely relate to the business. While ownership and governance are often closely related, because the family dominates both, Chrismam et al. (2009) underline the needs for a long-term compatibility of them. Given a certain size of the family, a "moral" person will have to be "created", to speak and act on the behalf of the members. It will have to follow due processes of hearing, discussing and compromising, while a spoke person will formulate and ensure accurateness of the family's position, in alignment with the business.

In some extreme, De Massis et al. (2008) mention examples where an intended succession did not occur, as a dominant coalition voted against the choice of all potential family successors, whether acceptable and willing or not, or declined the management its leadership of the business. Gallo (2013) promotes the creation of a Business Skills Trust (BST) that will ensure that trustees are educated, qualified, appropriately selected, while providing guidelines, support autonomy and accountability aiming at bridging the expectations and potential differences between members of all sides.

Consequently, the lack of a functional Family council can be assessed as a **Moderate** risk, of the *ASSUMPTION* category, where the many shareholders shall be given a room to express themselves while acquiring the necessary skills and competence to support the business (vote of confidence) which can have a medium impact on the transfer appropriateness (non-channeled voices of discordances), with low business consequences (fuzziness), underlining the need for an articulated support of the management team.

[25] The family council is a working governing body that is elected by the Family Assembly among its members to deliberate on family business issues. The family council is established at this point as a representative governance body for the family assembly in coordinating the interests of the family members in their business. Retrieved January 14, 2014 from http://www.smetoolkit.org/smetoolkit/en/content/en/6746/Family-Council

Figure 11 positions lack of a functional Family council on the Family Owned Business Risk Heat Map, weighting the risk at 2x1, that is 2, a moderate risk.

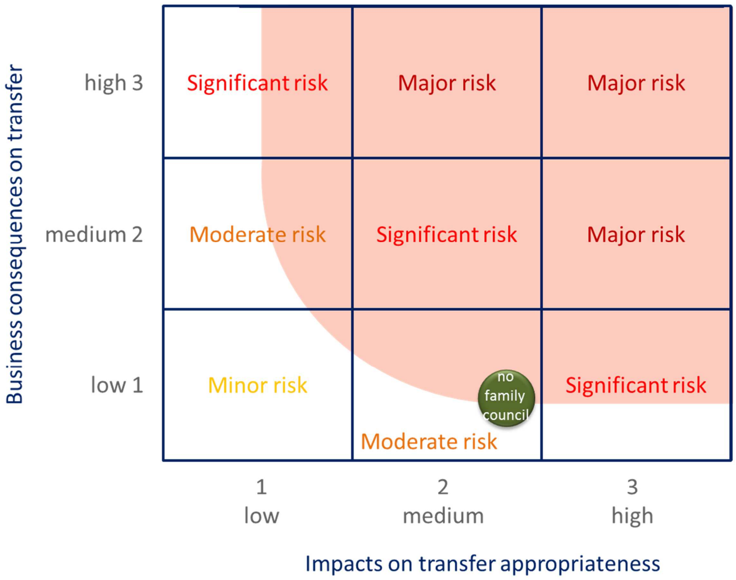

Figure 11: Family Owned Business Risk Heat Map - Non-functional family council

Family feuding

As cited by Fattoum and Fayolle (2009), a study conducted by Morris et al. (1997) showed that the good quality of the relationship between the members of the family constituted a unique source of competitive advantage. As such, the absence of a "team spirit", shaped and maintained by the head of the family, may lead to open or muted conflicts, which in turn can endanger the competitiveness of the business by shifting its focus on non-corporate issues. More than just reaching financial milestones and sharing growth and dividends with the family, Gomez-Mejia et al. (2011), added that a "socioemotional wealth" has recently emerged, that meets the family's affective needs, that have to be nurtured as well, within the family business.

Consequently, Family feuding can also be assessed as a **Moderate** risk, of the *OPINION category*, that the shareholders shall be taken care of, as a unique source of competitive edge ("familiness"). It can have a medium impact on the transfer appropriateness (consensus building), with low level of business consequences (lack of focus) underlining the need for a "buffer" zone to immunize the management team, from the family feuds.

Figure 12 positions the presence of Family feuding on the Family Owned Business Risk Heat Map, weighting the risk at 2x1, that is 2, a moderate risk.

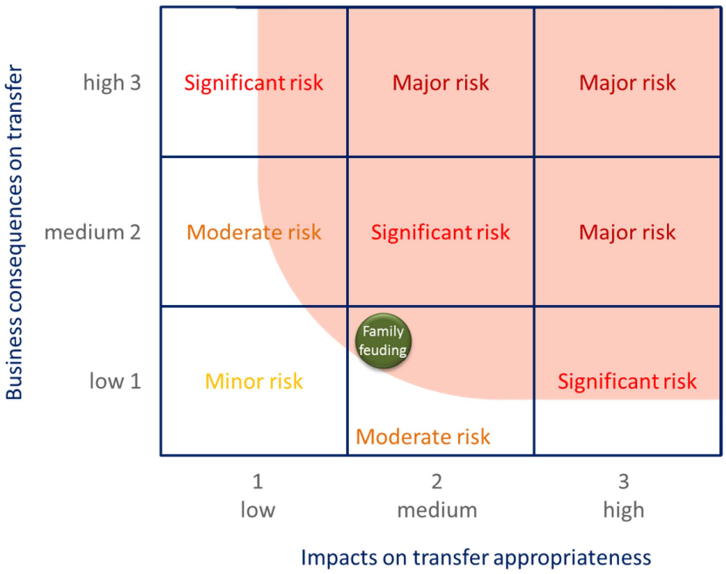

Figure 12: Family Owned Business Risk Heat Map - Family feuding

Family public disavowing

As stake and shareholders belong subsequently to the same personal circles, and/or families, “close knits” are what characterize ownership structure of the company. As such, the company will follow a trajectory decided and implemented by its management team and board, under the rules and responsibility of its CEO, and any consequences on the shareholders, whether true, perceived or misunderstood will, more often than not, be felt on the “personae” of the holders. However in a much bigger proportion than in “public” company, voicing ones disagreement and/or selling ones shares, will negatively, impact the reputation of the business and of individual family members (Tarlow, 2012).

As stressed by Miller (1998), agenda of family members may differ, but may disagreements occur, as it can be often expected in families, and/or taking part into the making of the decisions be an irrevocable source of discord, public unity shall be maintained and selling of shares allowed, so for dissidents to leave the business altogether, while keeping a lid on its source, the family's overall interests being first. Once decisions are being made, a united front shall be presented to the “public”, whether they are employees, suppliers, customers, banks, competitors, friends, associates and/or other shareholders.

Consequently, Family public disavowing can also be assessed as a **Minor** risk, of the *ASSUMPTION* category, where the Business model alignment shall ensure a coherent “corporate” front (one owner, one family), which can have a low impact on the transfer appropriateness (reshuffling of shares), with low business consequences (public dissonance) underlining the need for the business to present a united image.

Figure 13 positions Family public disavowing on the Family Owned Business Risk Heat Map, weighting the risk at 1x1, that is 1, a minor risk.

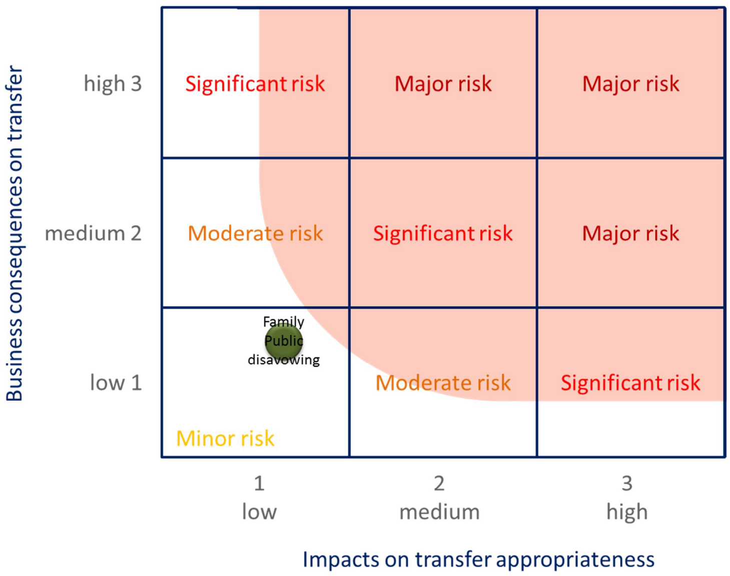

Figure 13: Family Owned Business Risk Heat Map - Family public disavowing

Riskiness Index

Hopkins (2013), explains that "to decide on an appropriate risk agenda, an organization needs to have a view of the level of riskiness embedded within the existing strategy, tactics, operations and governance", which he gathered into a "riskiness index", as below.

Figure 14 shows the resulting (modified) riskiness index (Hopkins, 2013), of a Family Owned Business (FOB) at time of first generational shift, as a result of the gathered data, met along the analysis.

Area of risks	Magnitude	Score	Heat zone	Assessment	Main Ownership
No succession planning	Major risk	9	Yes	bias	Incumbent Management Board
Generational shadow	Major risk	9	Yes	*feeling*	Incumbent
No contingency plans	Significant risk	4	Yes	*assumption*	Incumbent
Improper selection process	Significant risk	3	Yes	*belief*	Incumbent
No grooming Process	Significant risk	3	Yes	*opinion*	Incumbent Management Board
Weak Management Board	Significant risk	4	Yes	*belief*	Management Board
Even shares split	Significant risk	4	Yes	*fact*	Incumbent Family members
Monarchial Management	Moderate risk	2	*No*	*belief*	Incumbent
Absolute CEO	Moderate risk	2	Yes	*opinion*	Incumbent
Non-functional family council	Moderate risk	2	Yes/No	*assumption*	Family members
Family feuding	Moderate risk	2	*Yes/No*	*opinion*	Family members
Family public disavowing	Minor risk	1	*No*	*assumption*	Family members
	index	45			

Figure 14: Modified riskiness index

Indeed listing altogether the area, magnitude and score of risks allow, at a quick glance, to assess the key risks elements to consider when contemplating first generational shift in Family Owned Business (FOB). Of the 12 identified risks, 7 are assessed as either Major or Significant, where 8 to 10 are to be found in the "(risk) heat zone", while 8 remain under the whole, or shared, ownership of the incumbent.

It is therefore with these elements in mind, that the risk (handling) agenda should be started.

Conclusion

What qualifies as a successful succession shall be seen in the light of previously set objectives, states Štangej (2013), and not all the factors are unique to family firms. "Thus, if a firm is not financially viable, succession will not occur regardless of whether it is a family business or not", adds De Massis (2008).

While wealth creation is associated with risk taking, "wealth preservation in family businesses is rooted within the vision of continuity and willingness to transfer the company over generations", cites Ward (1987). Wealth preservation is especially evident among next generation that undertakes control of the business, as descendants are less willing to take risk than the preceding generation and have stronger inclination towards wealth preservation (Kaye & Hamilton, 2004).

It is therefore of prime importance that the incumbent understands the need to grow a business by "managing" it as well, that is preparing concurrently for the future's future. Incumbents are tantamount to the success but also to the failure of their business, often avoiding any kind of counterweighting process to be set, which may lower their overall reaches in the business.

Learning to let go, planning for its succession, while growing a business and a family may in itself appear as a paradox. Yet in the absence of such a forward thinking, statistics will keep showing a 70% death rate of Family Owned Business at time of first generational shift.

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