Goodison Group in Scotland
INFLUENCING LEARNING

Scotland's Futures Forum

"Sustainability:

the challenge facing Scotland's SMEs and family businesses"

Full Report on two stakeholder events:

Edinburgh, 25th April 2014

Inverness, 9th May 2014

Report by:

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Bank of Scotland · Interreg IVC · European Union European Regional Development Fund · Queen Margaret University Edinburgh · TOK-TOC · Scottish Family Business Association · University of Strathclyde Glasgow · Wright, Johnston & Mackenzie LLP · HIE Highlands and Islands Enterprise / Iomairt na Gàidhealtachd 's nan Eilean · University of the Highlands and Islands / Oilthigh na Gàidhealtachd agus nan Eilean

Contents

Video Links

Reflections from both conferences were captured on video, to view please click on the links below.

1 Short version (7mins) : https://vimeo.com/98730546

2 Longer version (12mins) : https://vimeo.com/98743002

Summary report

The events

This summary provides information about two events held in the spring of 2014 by the Goodison Group in Scotland (GGiS), Scotland's Futures Forum and partners. The events formed part of the first phase of a project to identify gaps in learning and support systems that might be filled to better support and sustain small and medium enterprises (SMEs) and family businesses in Scotland.

The events - one of which was held in Edinburgh, the other in Inverness - were attended by 119 people in total. Delegates represented SMEs and family businesses, universities and other education providers, and organisations that provide business and other professional advice to SMEs and family businesses.

Evidence presented at the events and feedback from delegates will be used to take forward the second and third phases of the project, which will be focused on piloting and evaluating interventions.

Issues affecting SMEs and family businesses in Scotland

SMEs account for 99.3% of all private sector enterprises in Scotland, and 63% of SMEs are family businesses. The success and sustainability of SMEs and family business are crucial to Scotland's economy. Successful business transfer from one seller to another, or from one family generation to another, is critical to the long-term success of the business.

At the moment, Scotland appears to be lagging behind other parts of the world in providing the knowledge, skills and support needed by businesses to build and protect the legacy of their enterprise for future generations. The process involved in transferring the ownership of any business is complex and requires years of planning, detailed knowledge and specialist support. However, where a business is also a family business with two or more generations involved, the often conflicting interests of the family and the emotional drivers will almost always add complex issues to an already challenging task.

Statistics relating to transfer of family businesses are of concern: research shows that approximately 73% of family businesses want to keep the business in the family. However, in 2012 only 12% of family owned businesses in Scotland were passed down to the second generation, and only 7% of family owned SMEs had been in the family for three generations or more.

Proceedings

A series of presentations highlighted issues provided evidence and stimulated discussion that eventually led to an identification of gaps and potential interventions and solutions:

a) Welcome and introduction

David C Watt, Director of GGiS and Executive Director, Institute of Directors Scotland, welcomed delegates and emphasised the importance of the events as opportunities for delegates to learn from one another "in a positive, progressive way that actually makes a difference to the economy and the family businesses and small businesses of Scotland in the future."

b) Perspective of Scotland's Futures Forum

Donald Jarvie, Head of Business, Scotland's Futures Forum, The Scottish Parliament, spoke about the importance of SMEs and family businesses for the Scottish economy, with SMEs accounting for 99.3% of all private sector enterprises in Scotland, and 63% of SMEs being family businesses. He made the following points:

- SMEs and family businesses are particularly important in rural areas.
- In addition to providing products and services, SMEs and family businesses contribute to economic growth, provide local employment, create local supply chains, and can trail-blaze new digital technologies in business.
- A key challenge facing SMEs and family businesses in Scotland is ensuring a successful succession from one generation to the next: in 2012, 17,385 new enterprises were "born" in Scotland, but 16,760 "died/ceased to exist" — a number of these "deaths" resulted from failed business succession.
- Although we need to continue to set up new businesses, we need to rebalance resources to protect the existing base of SMEs and family businesses, and education, skills and lifelong learning should be part of this resource effort.
- We need to learn what works in supporting and sustaining SMEs and family businesses and put the necessary support infrastructure in place to achieve this.

c) The impact of changing demographics in Scotland

Graham Smith, Project Manager - Employability, University of Strathclyde, highlighted the implications of changing population demographics for how we support and sustain SMEs and family businesses, as follows:

- Scotland's population has not increased in proportion with the rest of the UK and it is not projected to rise comparatively during the next 25 years.

- Because of low replacement fertility, increased life expectancy, and the impact of net migration, the average age of individuals working in Scotland is relatively high, at 41.5 years, and is predicted to rise.

- Scotland will be home to more older people and fewer younger people.

- Increasing numbers of young people are going on to further or higher education, rather than going straight into the workplace.

- The consequences of changing demographics are that business owners are getting older, with one third of business owners in Europe due to retire in the next 10 years, and natural succession within families may reduce or may not exist at all.

d) Understanding the complexities of family businesses – a dramatised case study

Delegates watched and interacted with a dramatised case study of a family business. The business was in trouble, not because of the competence of the individuals, but because of conflicts in the family relationships. These conflicts would not often be visible to the eyes of external advisors, but need to be considered whenever support is provided to family businesses.

The case study was designed to illustrate the following issues that affect family businesses:

- Families often lack the knowledge and skills they need to understand and resolve family issues that are impacting on the business; they might also lack the skills to do anything about the family issues or know how to seek help

- The trend towards specialisation within professions, and the lack of training for advisors around family business issues, means that companies' solicitors, accountants and business advisors are unlikely to be equipped with the knowledge and skills needed to diagnose underlying family problems.

- Even when exposed to all the family issues (something that would not normally happen), advisors will often still see their role as advising only on the business issues in response to a specific instruction.

- Succession/business transfer in a family business can involve addressing a large number of different but interconnected and emotive issues.

- Many issues that might need to be addressed are predictable and relate to "age and stage" of life, but they need to be considered and planned for – many family businesses might lack the knowledge and skills to do that.

- In cases where the family does understand the issues and the need to address them, sensitivities surrounding the issues can make it extremely difficult for the family to raise and tackle them on their own. In these situations, independent expert help and advice can be enormously helpful but it is not always readily available due to the lack of suitably qualified advisors.

- Behind many business problems there can lie family issues - unless you can first identify, understand and resolve the family issues you are unlikely to sort out the business problem.

During the dramatisation the event organisers noted that many delegates concluded that fault lay with the individual family members and their perceived lack of competence, and suggested remedial action including mediation, and training in skill areas such as:

- communication to achieve better understanding of situations
- effective strategic planning skills, and
- effective leadership skills.

As a result of round-table discussions following the dramatisation, delegates became increasingly aware of the learning gaps of all stakeholders (advisors and the family) within the situation; in other words, that the individuals were in fact competent and that the problems were systemic.

Delegates made a number of suggestions including the need for:

- diagnostic skills
- more emotional intelligence
- making changes in structuring of the business and its governance
- supporting the family to identify a common purpose, and
- seeking a balance between the business's needs with family members' personal aspirations.

e) What can be done to help?

George Stevenson, Scottish Family Business Association, provided a more detailed analysis of the issues that had been illustrated by the dramatised case study, and offered potential solutions to some of the challenges. One of these solutions was the "family business consultant", who does not provide technical advice but whose role is to help the family understand:

- why they are having difficulties stemming from the family's relationships

- the interconnected issues that need to be addressed, and
- how to find the best way forward that they can all buy into.

f) Assessing the cost of business failure

Graham Smith, Project Manager - Employability, University of Strathclyde, outlined the costs of business failure, in terms of:

- private cost, including losing the value of the business
- social cost, including the waste of resources, the capacity of society to produce important goods and crucial services, and
- economic cost, which can be calculated in terms of a potential tax loss of £1.23 billion in one year.

Evidence suggests that the benefits of supporting business succession and transfer are great. Evidence also shows that transferred businesses outperform start-ups in relation to survival, turnover, profit, innovativeness and employment.

g) Solutions for business

Martin Stepek, CEO, Scottish Family Business Association, proposed actions for more effectively supporting and sustaining businesses in the areas of:

- Business and professional practices - including awareness-raising for members of family businesses and for business advisors about issues that affect family businesses.

- Education and training - including embedded learning about family businesses in business qualifications; building issues relating to family businesses into advisors' qualifications; and professional development programmes for people already working in family businesses and those already advising businesses.

- Policy - including awareness-raising for the Scottish Government and asking the Scottish Government to lead an awareness-raising campaign to reduce the loss of family businesses; and asking them to collaborate in the development of policy relating to awareness-raising, and education and training for family businesses and business advisors.

Conclusions and next steps

Delegates and stakeholders identified a number of gaps and potential interventions and solutions:

Identified gaps:

- There has been too much policy focus on business start-ups, and too little on supporting business transfers.

- There is a gap in education for buyers and sellers of SMEs in relation to business transfers.
- There is a need to understand the costs (social and economic) of ineffective management of business succession.
- There is a lack of research in relation to family businesses in Scotland, including the number there are, where they are located, and the issues that affect them.
- There is a need to increase the specialist advice/knowledge required to support the specific needs of family businesses, particularly around succession and governance structures.

Possible solutions:

- People in SMEs and family businesses should know about and have access to:
    - external mediation which takes account not only of technical business issues but of family issues that might well be hidden from public view
    - support for business succession planning and business transfer, including the different options for business transfer, and
    - education so that they can learn about the common issues that arise in family businesses, and how to resolve these through planning, mediation and knowing where to seek help

- Advisors (both public and private) should have access to:
    - education and learning so that they can support business succession planning and business transfer
    - education so they can learn about the specific needs of family businesses and the context in which they are giving their advice, and
    - diagnostic tools that are available for identifying issues, enabling referrals to specialist advice, if required

- In general, we need to increase the number of 'consultants' with the necessary skills and knowledge to specifically support family businesses (family business consultants)

- Business courses at further and higher education levels should include learning content relating to the specific needs of family businesses.

Next steps

The project's stakeholders propose three steps for taking the project forward:

Step 1:
Complete the first phase of the project by using this report and other existing evidence to:

- Continue to engage with policy makers and practitioners to highlight and discuss the reasons why succession planning and exit strategies are so important to long term success.

- Increase the understanding of policy makers and practitioners of the different dynamics/issues that exist within family businesses, and the impact these have on succession planning and exit strategies.

- Identify who needs to be influenced and what needs to change, at government level, within education and business for family businesses/SMEs to implement effective succession planning and exit strategies, and

- Provide input from research, policies and practices from Europe and the rest of the world, to help influence the thinking on policies and practices relating to succession planning and exit strategies within family businesses/SMEs in Scotland.

Step 2:
Work in partnership with relevant stakeholders to develop a bid for EU funding to test and pilot the learning and interventions identified in Phase 1 to improve succession planning and exit strategies.

Step 3:
Phase 3 of the project will pilot and evaluate the learning and interventions identified to establish if the objectives agreed in Phase 2 have been met.

Main report

1. Introduction and background

1.1 This report

This report describes the proceedings and outcomes of two events held in the spring of 2014 by the Goodison Group in Scotland[1] (GGiS), Scotland's Futures Forum[2]and partners.

It sets out the background to the events, their planned purpose and a profile of the delegates. It summarises inputs from a number of speakers and gives readers a flavour of the interactive dramatised scenario that formed the heart of the events. It details solutions proposed by delegates on the day and feedback provided following the events.

The report is designed to raise awareness of the challenges facing small and medium enterprises (SMEs) and in particular those SMEs that are family businesses. It identifies practical interventions, based on discussions at the events and on other existing evidence. Its conclusions and recommendations will be used to inform press releases and the writing of funding bids, including a planned bid for European Union funding to pilot learning and interventions.

The report will be circulated to delegates, SMEs, family businesses and a range of other stakeholders to inform them about the events, and to influence the development of policy and support for sustaining SMEs and family businesses.

1.2 Understanding SMEs and family businesses in Scotland

SMEs account for 99.3% of all private sector enterprises in Scotland, and 63% of SMEs are family businesses. The success of SMEs and family businesses and their long term sustainability are crucial to Scotland's economy thriving in the 21st

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[1] Goodison Group in Scotland (GGiS) is a company registered in Scotland with charitable status under the name GGiS (Network) Ltd. It believes that learning throughout life is vital to Scotland thriving in the 21st Century. It brings together, on an equal basis, influential and experienced people, from Government, education and business (including the third sector), to consider and influence the thinking on policies and practices relating to learning throughout life. GGiS believes that learning throughout life encompasses all forms of learning and education; early year's education, school/college education, adult learning, formal and informal learning as well as learning as part of a job/career. Its Board consists of experienced people who have a great knowledge of and passion for learning and education.

[2] Scotland's Futures Forum was created by the Scottish Parliament to help its Members, along with policy makers, businesses, academics, and the wider community of Scotland, look beyond immediate horizons, to some of the challenges and opportunities we will face in the future. Looking beyond the 4 year electoral cycle and away from party politics, the forum seeks to stimulate public debate in Scotland, bringing fresh perspectives, ideas and creativity on how we might prepare for the future now. (From the Forum's website: http://www.scotlandfutureforum.org). GGiS is the Forum's strategic partner in the area of education, skills and learning.

century, and the Scottish Government's economic[3] and skills[4] strategies have a focus that include SME competitiveness and skills for lifelong learning.

We know that successful business transfer from one seller to another, or from one family generation to another, is critical to the long-term success of the business. The impact of successful SME and family business transfers on local communities and the Scottish economy can be significant.

Scotland appears to be lagging behind America and parts of Europe in providing the knowledge, skills and support needed by businesses to build and protect the legacy of their enterprise for future generations. The process involved in transferring the ownership of any business is complex and requires years of planning, detailed knowledge and specialist support. However, where a business is also a family business with two or more generations involved, the often conflicting interests of the family and the emotional drivers will almost always add complex issues to an already challenging task. Without the specialist knowledge and skills needed by the families and their advisors to address these issues, critical decisions are avoided and/or delayed until it is too late. Consequently, the statistics relating to transfer of family businesses are of concern. For example, research has shown that approximately 73% of family businesses want to keep the business in the family. However, in 2012 only 12% of family owned businesses in Scotland were passed down to the second generation, and only 7% of family owned SMEs had been in the family for three generations or more.

It is important to acknowledge that the core skills and advice for helping SMEs through transfer and succession already exist, but evidence suggests that family businesses require additional support.

We should also acknowledge that while there is consensus from evidence that these problems exist, there are exceptions.

1.3 Influencing learning to help improve sustainability of SMEs and family businesses

In 2013 GGiS initiated a project to focus on *'Influencing learning to help improve the sustainability of family businesses and SMEs in Scotland.'* This project evolved out of the work of a number of stakeholders from a range of sectors. For the list of stakeholders involved in developing the project, see Appendix 1.

The project's focus is on:

- the learning and education that needs to take place for succession planning and exit strategies to be effective in SMEs/family businesses, and

[3] http://www.scotland.gov.uk/Publications/2011/09/13091128/0
[4] http://www.scotland.gov.uk/Publications/2007/09/06091114/0

- the policies and practices that need to be influenced and delivered within the government, education and the business sectors.

The two events that are the focus of this report are deliverables of Phase 1 of the project.

Phase 2 will involve the development of a partnership bid for European Union funding to test out learning and interventions identified in Phase 1 to improve succession planning and exit strategies.

2. Purpose and scope of the events

The events were planned to address the challenges involved in business succession and transfer, and to bring forward recommendations for practical interventions. They would achieve this by engaging with representatives from SMEs, family businesses, government, education and professional advisors to:

- discuss and understand the impact of a changing demographic profile in Scotland
- hear findings from the University of Strathclyde's TOK-TOC project, outlining recent research on SMEs[5]
- identify the learning required for effective succession planning and exit strategies in SMEs and family businesses
- highlight the particular difficulties that business families face, especially at times of business transfer
- explore where existing support structures/organisations could intervene more successfully in meeting the needs of family businesses beyond the first generation
- identify the knowledge and skills needed by the families and their advisors to manage family related ownership and governance issues more effectively, and
- identify actions to influence policies and practices relating to succession planning and exit strategies.

3. Delegate profile

A total of 119 people attended across the two events, with 73 at the Edinburgh event and 46 in Inverness. There was representation from SMEs and family businesses, university and other education providers, and from organisations that provide business and other professional advice to SMEs and family businesses.

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[5] TOK-TOC is a project bringing together entrepreneurs, policy makers, bankers, community leaders and researchers in an attempt to ease the problems SMEs are facing following business transfer http://tok-toc.eu/?page_id=1162. One of the key outputs from the project is a best practice handbook for buyers and sellers http://tok-toc.eu/?page_id=791

This broad representation was designed to encourage the sharing of learning and identification of current support and of support needs.

4. Proceedings

The events included a number of presentations from different stakeholder perspectives, with the heart of the event being a dramatised scenario of a crisis in one SME – in this case a family business. The scenario was interactive and delegates were able to offer guidance and responses as it was acted out. The inputs that framed the scenario reflected on and analysed some of the complex issues that the drama brought to life.

The programmes for the events are attached at Appendix 2.

The following sections are summaries of the speakers' presentations.

4.1 **Welcome and introduction:** David C Watt, Director, GGiS and Executive Director, Institute of Directors Scotland

David C Watt opened the events. He welcomed delegates, set out the background to the events and their purpose, and introduced the running order for the day.

David emphasised the importance of the events as opportunities for learning from each other "in a positive, progressive way that actually makes a difference to the economy and the family businesses and small businesses of Scotland in the future."

4.2 **Scotland's Futures Forum Perspective:** Donald Jarvie, Head of Business, Scotland's Futures Forum, The Scottish Parliament

Donald Jarvie opened by suggesting that, from a non-political policy perspective, this is a very important subject, with SMEs accounting for 99.3% of all private sector enterprises in Scotland, and 63% of SMEs being family businesses. He reminded delegates that the success and long-term sustainability of these businesses are of crucial importance to Scotland's economy and communities, particularly in rural areas; and that, in addition to providing products and services, they contribute to economic growth, provide local employment, create local supply chains, and can trail-blaze the use of new digital technologies/solution applications in business.

He stated that one of the key challenges facing SMEs and family businesses in Scotland is to ensure a successful succession from one generation to the next, pointing out that in 2012, 17,385 new enterprises were "born" in Scotland, but 16,760 "died/ceased to exist".

He said, “A number of these “deaths” resulted from failed business succession, and we need to reduce leakage. Business deaths damage local employment, destroy local supply chains and reduce tax revenue for national government. This presents Scotland with a major opportunity as well as a challenge.

“Although we need to continue to set up new businesses through support mechanisms, enterprise schemes, Business Gateway, and others, we need to rebalance resources to protect the existing base of SMEs and family businesses. Education, skills and lifelong learning should be part of this resource effort.

“We need to learn what works, what helps smooth business succession - whether it involves transferring the business to other family members or selling at the appropriate moment to keep it as a going concern or whatever – and then put the necessary support infrastructure behind this. We don’t need to re-invent the wheel; we already know that early measures taken by SMEs and family businesses can help smooth successful, effective business transfer and massively reduce emotional stress.

“It is crucial that all partners involved in supporting SMEs and family businesses work and learn together, and learn from each other – all learning together, speaking the same language.”

Donald concluded by stressing that these events were important opportunities for positive collaboration.

4.3 The impact of changing demographics in Scotland: Graham Smith, Project Manager - Employability, University of Strathclyde

Graham Smith opened with the assertion that, in recent years, the population of Scotland has not increased in proportion with the rest of the UK: between 1901 and 2012, while the UK population as a whole increased by 66.2%, Scotland’s rose by a mere 18.6% — and it is not projected to rise comparatively during the next 25 years.

He explained that, demographically, because of low replacement fertility, increased life expectancy and the impact of net migration, the average age of individuals working in Scotland is relatively high, at 41.5 years, and it is predicted to go up. The trend has been, and will continue to be, for Scotland to be home to more older people and fewer younger people. At the same time, increasing numbers of young people (60.6% in 2012) are going on to further or higher education, rather than going straight into the workplace. The consequences for SMEs are that business owners are getting older, with one third of business owners in Europe due to retire in the next 10 years. Lower fertility rates mean that natural succession within families may reduce or may not exist at all. Finally, transitions in later life are also major considerations, with factors such as declining health, family transitions and caring responsibilities all becoming more amplified.”

4.4 Understanding the complexities of family businesses – a dramatised case study: Creative Training Unlimited

Wright Johnston and Mackenzie LLP (WJM) had worked with Creative Training Unlimited[6] to create a dramatised case study to present to the delegates. The dramatisation provided a behind-the-scenes look at family conflicts in a fictional family business. The business was suffering because of business succession problems, in this case a transfer from first to second generation, made worse by emotional family conflicts. Although the company was fictional, the content was drawn from real-life situations that had been encountered by WJM's family business consultancy, Family Business Solutions Ltd (FBS), in the course of its work with families and their advisors over twenty years.[7]

The dramatisation enabled delegates to share the family's thought processes about the business, their relationships and the emotional anxiety under which they were trying to run their business and live their lives.

It aimed to illustrate, and enable delegates to identify, the following insights into the specific issues that affect family businesses:

a) Families often lack the knowledge they need to understand how the family issues are impacting on the business; they might also lack the skills to do anything about the family issues or know how to seek help.

b) The trend towards specialisation within professions and the lack of training for advisors around family business issues means that companies' solicitors, accountants and business advisors are unlikely to be equipped with the knowledge and skills needed to diagnose underlying family problems.

c) Even when exposed to all the family issues (something that would not normally happen), advisors will often still see their role as advising only on the business issues, in response to a specific instruction.

d) Succession/business transfer in a family business can involve addressing a large number of different but interconnected and often highly emotive issues — not just appointing the next managing director or preparing the business for sale, as would be the case in a non-family business.

e) Any issues that might need to be addressed are predictable and relate to "age and stage" of life; however, they need to be considered well in advance and planned for - in most cases business families lack the knowledge and skills to do that.

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[6] http://www.creativetrainingunlimited.co.uk

[7] Appendix 4 contains two case studies developed by Family Business Solutions Ltd that describe similarly complex situations in which family businesses can find themselves.

f) In cases where the family does understand the issues and the need to address them, sensitivities surrounding the issues can make it extremely difficult for the family to raise and tackle them on their own; in these situations, independent expert help and advice can be enormously helpful but it is not always readily available due to the lack of suitably qualified advisors.

g) Behind many business problems there can lie family issues — unless you can first identify, understand and resolve the family issues you are unlikely to sort out the business problem.

During the dramatised case study the event organisers noted that many delegates tended to conclude that fault lay with the individual family members and their perceived lack of competence, and suggested remedial action including mediation, and training in skill areas such as:

- communication to achieve better understanding of situations
- effective strategic planning skills, and
- effective leadership skills.

It was also interesting to note that, as a result of round-table discussions following the dramatisation, delegates became increasingly aware of the learning gaps of all stakeholders (advisors and the family) within the situation; in other words, that the individuals were in fact competent and that the problems were systemic.

Delegates made a number of suggestions including the need for:

- diagnostic skills
- more emotional intelligence
- making changes in structuring of the business and its governance
- supporting the family to identify a common purpose, and
- seeking a balance between the business's needs with family members' personal aspirations.

4.5 What can be done to help? George Stevenson, Scottish Family Business Association

George Stevenson provided a more detailed analysis of the issues that had been illustrated by the dramatised case study, and offered potential solutions to some of the challenges from the perspective of the Scottish Family Business Association.

He began by explaining that, although every business family would be different and the specific challenges faced would be unique to them, the dramatised scenario was a typical example of how a good business, owned and managed by competent family members could run into problems.

He continued:

“Ultimately, of course, every business fails because it runs out of money as a consequence of business problems. But for family businesses the business problems are very often the symptoms of problems within the family system which, because they evolve slowly over time, are accommodated by the family as they think that that is “just the way it is” when families are in business together. Unfortunately, by the time it becomes intolerable and something has to be done, it is often, as in this case, too late.

“Ensuring that families anticipate the problems they will encounter and get the help they need before it is too late is clearly crucial. However, as things stand at the moment:

- The family in the case study do not have the knowledge they need to understand what is at the root of their problems and, therefore, do not know what they need help with. As family issues almost invariably eventually start affecting business performance, at that point the help requested will tend to be in relation to the business not the family.

- The family’s traditional advisors (including lawyers, accountants and business advisors):

  - are unlikely to know in any detail what is going on “behind closed doors”, and do not have the knowledge, processes and skills needed to gather the data required to understand what really is at the root of the family’s problems, and
  - might not be the right people to offer independent facilitation, even if they have the appropriate skills, due to a potential conflict of interest.

  By default therefore, their advice will be in response to a request for help with a business problem and transaction-orientated (for example, relating to tax or wills) and initiated by instruction.

- The owner-manager is relying on professional and business advice, which tends to be reactive rather than proactive, technical and focused rather than holistic, and provided to one individual rather than to the family. This advice also tends to view family tensions as just that – tensions which are behind-the-scenes and not relevant to the business.

“In a family business the ownership and management structures can remain virtually unchanged for long periods of time (it is not uncommon for family managing directors to be in post for 20-30 years), but when it is time to change, then many different but connected and complex emotional issues may need to be addressed. This is known as “The Succession Conspiracy” (as illustrated in Figure 1 below).

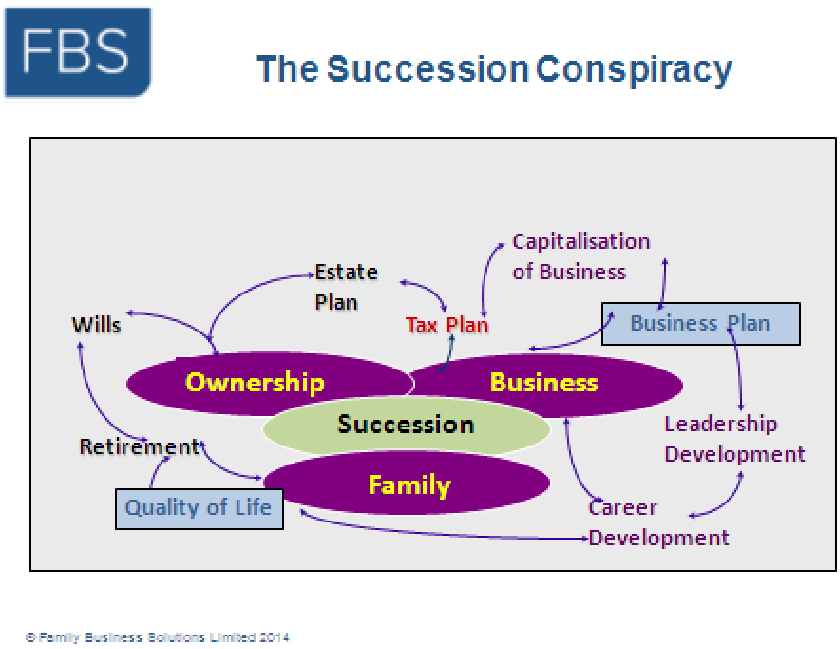

Figure 1

An example of the “succession conspiracy” might be where a family business leader is approaching retirement and is being pressed by his solicitor to make a will. However, with a significant part of his wealth tied up in the business, there can be a number of interconnected issues and questions for the business leader to resolve or answer first, including:

- can I afford to retire?
- can I extract money from the business without jeopardising its future?
- are any of my children ready/able to take over as the next leader?
- if not , do I invest in their development?
- If more than one could be ready/able to take over, how do I choose between them?
- should I bring in an outsider meantime or should I stay on?
- can the business survive without me?
- do I want to retire?
- could I still have a role in the business – and if so, what?
- should I leave shares equally to all my children, even if not all of them work in the business?

Without help to address all of the above issues and questions, the tendency can be to do nothing until it is too late.

The fact that many delegates struggled to identify the underlying causes of the difficulties in the situation underscores the need for awareness-raising for both people in family businesses and for those who support them.

George then went on to describe the role of a family business consultant (FBC), which could form part of a solution: “The FBC is well recognised and understood in

North America and some parts of Europe, however this is not yet the case in Scotland or the UK, where there is still only a handful of suitably qualified and experienced practitioners. The generalist knowledge, skills and experience of an FBC are at the opposite end of the spectrum to the highly specialist technical skills of our professional advisors." (See Figure 2 below.)

Figure 2

"Figure 2 shows that an FBC does not undertake legal work or provide tax advice. The role is to help the family understand:

- why they are having difficulties stemming from the family's relationships — with one another and with the business

- what all the interconnected issues are that need to be addressed (including leadership succession, passing on ownership, retirement, cash requirements of individuals versus the business, sibling rivalry and other conflicts), and

- how to get organised to find the optimum way forward that they can all buy into.

"Given the opportunity through a referral from a professional advisor, the outcome of the FBC's work is normally a blueprint and a list of actions which form the basis of the family's instruction to their existing professional advisors.

"This process could be summed up as seeking an answer to a simple but fundamental question: "Why do you want to be in business together?"

"In other words, "Do the benefits of being in business together (as owners and /or owner managers and/or governors) outweigh the disadvantages?"

"If the answer is "yes", then the family will need to address how the ownership and management can be structured in a way that addresses all the family and business issues that are currently crippling the business. If the answer is "no", then they need to examine what exit options are available to them."

4.6 Assessing the cost of business failure: Graham Smith, Project Manager - Employability, University of Strathclyde.

Graham Smith presented an assessment of the cost of businesses failing, beginning by describing a European project which has explored the challenges of business succession and transfer across Europe.

"The "Transfer of Knowledge, Transfer of Capital" (TOK-TOC) project[8] has come to the conclusion that business succession, whether in family or non-family firms, has the potential to make or break a company. Managed well, it can help a company sustain its competitive advantage for years to come. Managed badly and it can see a business unravel in a very short space of time.

"The private, social and economic costs of business failure are often underestimated.

"The private cost can be severe when an owner retires and has been unsuccessful in finding a buyer to take over the business: the seller does not receive a fair price for what might be a profitable business.

"The social cost can refer to productive resources being wasted, and the capacity of society to produce important goods and crucial services being reduced. There can also be a loss of capital resources (such as machinery and equipment), a loss of a network of suppliers and customers, and a loss of knowledge and know-how.

"The economic cost is harder to quantify, but we can calculate a figure based on the following facts:

- in 2012 there were 16,760 business SME "deaths"
- each of these businesses had a mean turnover of £1,184,000
- each of them had an average of 3.23 staff employed, and
- the average salary in Scotland was £24,500.

"Allowing for "absorption" (whereby around 30% of individuals would re-enter employment quickly), the proposed figure is that, as a result of SME "deaths" in 2012, there was a tax loss of £1.23 billion.

[8] TOK-TOC is a project bringing together entrepreneurs, policy makers, bankers, community leaders and researchers in an attempt to ease the problems SMEs are facing following business transfer http://tok-toc.eu/?page_id=1162. One of the key outputs from the project is a best practice handbook for buyers and sellers http://tok-toc.eu/?page_id=791

"Scotland is very good at fostering entrepreneurship and growth, and there are several interventions available, including from: Business Gateway, E-Spark, Entrepreneurial Exchange, Scottish Chambers of Commerce, Scottish Entrepreneurial Academy, Scottish Enterprise, Highlands and Islands Enterprise, and industry awareness days. But, as is the case with governments across Europe, there is a failure to recognise the importance of providing support for business transfers, and little time, effort and money spent encouraging and promoting education programmes for the buyers and sellers of SMEs.

"Evidence suggests that the benefits of supporting business succession and transfer are great: the survival rate of new businesses after five years is between 35% and 50%, depending on the industry sector and economic climate, compared with a rate of between 90% and 96% for businesses that have been transferred. Empirical evidence is also beginning to show that transferred businesses outperform start-ups in relation to survival, turnover, profit, innovativeness and employment.

"The Glasgow local authority area, which between 2009 and 2012 saw more business "deaths" than "births", has committed £1m to a "Going Concern" fund to support business succession over the next three years.

"We need to see greater collaboration among key stakeholders and holistic business support functions that meet the needs and understand the challenges faced by businesses, including family businesses."

4.7 Solutions for business: Martin Stepek, CEO, Scottish Family Business Association

Martin Stepek proposed a vision for better supported family businesses, based on a vision of sustainable business development where:

- family businesses are seen as the bedrock of major economies and their failure is to be avoided at all costs
- Scotland can be a world-leader by taking a national strategic approach to their development, and
- an aware, educated, trained and supported family business sector can transform and sustain our economy and communities.

He said:

"A number of actions can be proposed that would support businesses to be better supported and sustained. These are actions related to:

- Business and professional practices, including raising the awareness of people working in family businesses of problems that can arise in such businesses, and the need for business advisors to have specialist skills, knowledge and understanding relating to issues that affect family businesses.

- Education and training: for example, including issues relating to family businesses within further and higher education qualifications that are aimed at the next generation of family business owners; and building issues relating to family businesses into qualifications for business advisors and professional advisors such as lawyers and accountants. In addition, there should be professional development programmes for people already working in family businesses and those already advising businesses, including the passing on of knowledge of diagnostic tools that exist to identify issues and information about specialist advice that is available.

- Policy, including raising the Scottish Government's awareness of the contribution family businesses make to the economy, to society and to communities; asking the Scottish Government to lead an awareness-raising campaign to reduce the loss of family businesses; and encouraging national and local government to collaborate in the development of policy relating to awareness-raising, and education and training for family businesses and business advisors.

Martin concluded by suggesting that just two key "gap-filling" actions could make a big positive difference:

- filling the gap in business consultancy, by increasing consultants' skills to identify and remedy issues with a family dimension, and
- raising awareness among people working in family businesses about the issues that can affect those businesses, and about potential solutions to those issues.

5 Conclusions and next steps

The presentations, the dramatised case study and the discussions which followed highlighted a number of gaps and possible solutions. This section collates the gaps and possible solutions that were identified by delegates and stakeholders, and proposes three steps for a way forward for Scotland's SMEs and family businesses.

5.1 Identified gaps:

- There has been too much policy focus on business start-ups, and too little on supporting business transfers.

- There is a gap in education for buyers and sellers of SMEs in relation to business transfers.

- There is a need to understand the costs (social and economic) as a result of ineffective management of business succession.

- There is a lack of research in relation to family businesses in Scotland, including the number there are, where they are located, and the issues that affect them.

- There is a need to increase the specialist advice/knowledge required to support the specific needs of family businesses particularly around succession and governance structures.

5.2 Possible solutions

a) People in SMEs and family businesses should know about and have access to:
   - external mediation which takes account not only of technical business issues but of family issues that might well be hidden from public view

   - support for business succession planning and business transfer including the different options for business transfer, and

   - education so that they can learn about the common issues that arise in family businesses, and how to resolve these through planning, mediation and knowing where to seek help.

b) Advisors (both public and private) should have access to:
   - education and learning so that they can support business succession planning and business transfer
   - education so they can learn about the specific needs of family businesses and the context in which they are giving their advice, and
   - diagnostic tools that are available for identifying issues enabling referrals to specialist advice, if required.

c) In general, we need to increase the number of consultants with the necessary skills and knowledge to specifically support family businesses (family business consultants).

d) Business courses at further and higher education levels should include learning content relating to the specific needs of family businesses.

Proposed next steps

Step 1:
The Stakeholders propose to complete the first phase of the project by using this report and other existing evidence to:

a) Continue to engage with policy makers and practitioners to highlight and discuss the reasons why succession planning and exit strategies are so important to long term success.

b) Increase the understanding of policy makers and practitioners of the different dynamics/issues that exist within family businesses, and the impact these have on succession planning and exit strategies.

c) Identify who needs to be influenced and what needs to change, at government level, and within education and business for family businesses/SMEs to implement effective succession planning and exit strategies.

d) Provide input from research, policies and practices from Europe and the rest of the world, to help influence the thinking on policies and practices relating to succession planning and exit strategies within family businesses/SMEs in Scotland.

Step 2:
Work in partnership with relevant stakeholders to develop a bid for European Union funding to develop, test and pilot the learning and interventions identified in Phase 1 to improve succession planning and exit strategies.

Step 3:
Evaluate the learning and interventions identified to establish if the objectives agreed in Phase 2 have been met.

Appendix 1

Stakeholders and sponsorship

The project evolved from conversations between GGiS, Scotland's Futures Forum, George Stevenson, Graham Smith and Claire Seaman and a steering group was formed to take the project forward.

The Steering Group had representation from key stakeholders:

- David C Watt, Director, the Goodison Group in Scotland (Chair)
- Gary I Campbell, University of the Highlands and Islands
- Donald Jarvie, Scotland's Futures Forum
- Anne Ross, Highland and Islands Enterprise
- Dr Claire Seaman, Queen Margaret University
- Graham Smith, University of Strathclyde
- George Stevenson, Chairman of the Scottish Family Business Association[9] (SFBA) and MD of Family Business Solutions Ltd[10] (FBS Ltd)

Further support and sponsorship came from:

- University of Strathclyde
- Wright Johnston and Mackenzie LLP
- Martin Stepek, Scottish Family Business Association
- Bank of Scotland
- TOK-TOC, EU Project
- University of the Highlands and Islands
- Queen Margaret University
- Interreg IVC
- Creative Training Unlimited
- European Commission
- Highlands and Islands Enterprise
- Paul Andrews, Family Business United
- Rona Doig and Tina Livingston, TwoBridge Consultancy Ltd

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[9] http://www.sfba.co.uk
[10] http://www.ukfbs.co.uk

Appendix 2

List of delegates (who actually attended)

Delegate List for Edinburgh event 25th April 2014	
Name	**Organisation**
Anderson, John	University of Strathclyde
Andrews, Paul	Family Business United
Anzani, John	Mid Lothian Council
Ballantyne, Iain	Oliver Asset Management
Borge, Jackie	Freelance Consultant (Education and Skills)
Boyle, George	Shepherd & Wedderburn LLP
Brasoveanu, Gabriela	TOK-TOC, EU Project
Brass, Colin	Wright, Johnston & Mackenzie LLP
Brass, Kirsten	Wright, Johnston & Mackenzie LLP
Cargill, John	Scottish Enterprise
Carnegie, Kate	Triage Central Ltd
Chapman, Anne	Anderson Strathern
Cuffy, Violet	Queen Margaret University
Cunningham, Alan	Glasgow City Council
Dawson, Lewis	Bookspeed
Deans, Gary	KPMG
Deas, Sarah	Scottish Enterprise/Highlands and Islands Enterprise
Dickson, Katy	Scottish Land Estates
Doig, Rona	Goodison Group in Scotland
Drogendijk, Lennard	TOK-TOC, EU Project
Fulton, Ian	Proclaim Care
Furtuna, Maria	TOK-TOC, EU Project
Gardner, Angela	AJ Enterprises
Garrow, Gordon	Craig Clelland
Guthrie, Kate	Lloyds Banking Group
Graham, Stuart	Queen Margaret University
Henderson, Barrie	Hendersons of Edinburgh
Henderson, Oliver	Hendersons of Edinburgh
Hendry, Alan	Friday Film Productions
Hennessey, Gerry	Meallmore
Hill, John	Business Gateway
Houston, Debbie	Dales Cycles
Hoyle, Susan	Wright, Johnston & Mackenzie LLP
Jarvie, Donald	Scotland's Futures Forum
Kinloch Anderson, Deirdrie	Kinloch Anderson
Knol, Sjoerdsje	TOK-TOC (European Project)
Livingston, Tina	Goodison Group in Scotland
Lynch, Alison	Business Gateway
MacPhee, Fiona	ACCA (Association of Chartered Certified Accountants)
McBride, Martin	Creative Training Unlimited

McCann, Fiona	Scottish Chamber of Commerce
McDonald, Amy	Creative Training Unlimited
MacKenzie, Niall	Strathclyde University
McRae, Calum	GMS Recordings Ltd
McRae, Finlay	GMS Recordings Ltd
McRae, Heather	GMS Recordings Ltd
Meekison, Alix	FWB
Mickel, Mairi	Mactaggart and Mickel
Mohammed, Asgher	Abbey Chemists
Morgan, Andrew	Auction Houses Falkirk
Nisbet, Claire	Maclay Murray & Spens LLP
Oliver, Roland	Oliver Asset Management
Pengelly, Ro	Calecal Ltd
Quinn, Nick	Leadership Factory
Rae, Robert	ICAS (Institute of Chartered Accountants of Scotland)
Rettie, Andrew	McCaskie Agricultural Supplies
Rettie, Neill	McCaskie Agricultural Supplies
Rust, Malcolm	Shepherd & Wedderburn LLP
Sarafilovic, Brian	PARS Foods
Seaman, Claire	Queen Margaret University
Shand, Peter	Murray Beith
Simpson, Gus	D.J. Mannings, Bo'ness
Smith, Graham	University of Strathclyde
Smith, Miriam	Queen Margaret University
Stepek, Martin	Scottish Family Business Association
Stevenson, George	Scottish Family Business Association
Stevenson, Margie	Scottish Family Business Association
Tens, Vera	Heriot Watt University
Vickery, Craig	ACCA
Watt, David	Goodison Group in Scotland/Institute of Directors
Wegener, Britta	Hendersons of Edinburgh
Wend, Petra	Queen Margaret University
Wylie-Roberts, Jane	Stafffinders

Delegate List for Inverness event: 9th May 2014	
Name	**Organisation**
Armour, James	Highland Property Services
Asher, George	Asher's Bakery
Borge, Jackie	Freelance Consultant (Education and Skills)
Brass, Colin	Wright, Johnston & Mackenzie LLP
Bryant, Steve	Scot JCB
Campbell, Gary I	University of Highlands and Islands (UHI)
Chisholm, Donna	Highlands and Islands Enterprise (HIE)
Dawson, Anna	Skills Development Scotland
Doig, Rona	Goodison Group in Scotland
Eglinton, David	HCVF Television
Ellen, Sharon	Bank of Scotland
Entwistle, Liam	Wright, Johnston & Mackenzie LLP
Erasmus, Victoria	The Glenmore Hotel
Fraser, David	Strathspey Steam Railway
Gordon, Ronald	John Gordon & Son Ltd
Gordon, Scott	John Gordon & Son Ltd
Grant, Marina	Callander Colgan Ltd
Hendry, Alan	Friday Film Productions
Holden, Paul	Institute of Directors
Innes, Roderick	Skills Development Scotland
Jarvie, Donald	Scotland's Futures Forum
Kay, Robert	Highlands and Islands Enterprise (HIE)
Kerr, Chris (MacDonald, Anne originally invited)	Harper MacLeod
Linn, Ross	Stronachs
Livingston, Tina	Goodison Group in Scotland
MacLeod, Angus	Wright, Johnston & Mackenzie LLP
MacRitchie, Fiona	Johnston Carmichael
Maxtone, Andy	Inverness Chamber of Commerce
McBride, Martin	Creative Training Unlimited
McDonald, Amy	Creative Training Unlimited
Morgan, Les	QfOUR
Munro, Garry	Royal Bank of Scotland
Murray, Rob	First Independent Finance Ltd
Nicholson, Andrew	Connect your potential
Nicolson, Lorraine	Royal Bank of Scotland
Oag, Jim	Investors in People
Ross, Allan	First Independent Finance Ltd
Ross, Anne	Highlands and Islands Enterprise (HIE)
Rutherford, Ross	First Independent Finance Ltd
Seaman, Claire	Queen Margaret University
Sellers, Daniel	Educational Consultant (through video conferencing)
Smith, Graham	University of Strathclyde
Stepek, Martin	Scottish Family Business Association

Stevenson, Margie	Scottish Family Business Association
Stevenson, George	Scottish Family Business Association
Stewart, David	DBS Projects
Watt, David C	Goodison Group in Scotland/Institute of Directors

Appendix 3

Programmes

Edinburgh event programme:

Sustainability:
The challenge facing Scotland's SMEs and family businesses

Bank of Scotland, The Mound, Edinburgh, EH1 1YZ

Friday 25 April 2014, 09.00-13.00
Event Programme

09.00 **Registration**
(Tea, coffee and bacon rolls will be available)

09.30 **Welcome and Introduction**
(David C Watt, Executive Director, Institute of Directors Scotland and Director, Goodison Group in Scotland)

09.35 **Alex Johnstone MSP**

09.45 **The Impact of Changing Demographics in Scotland**
(Graham Smith, University of Strathclyde)

10.00 **The Often Unseen Challenges and Issues Facing Family Businesses**
(Amy McDonald, Creative Training Unlimited)

11.00 **Break**

11.10 **Successful Interventions**
(Amy McDonald & George Stevenson, Scottish Family Business Association)

12.20 **Assessing the Cost of Business Failure**
(Graham Smith, University of Strathclyde)

12.35 **What Is To Be Done? Solutions For Business**
(Martin Stepek, Scottish Family Business Association)

12.55 **Closing Remarks**
(David C Watt, Executive Director, Institute of Directors Scotland and Director, Goodison Group in Scotland)

These events are brought to you by Goodison Group in Scotland (GGiS) and its strategic partner Scotland's Futures Forum, in collaboration with the Scottish Family Business Association, Bank of Scotland, University of Strathclyde, Queen Margaret University, University of the Highlands and Islands, Highlands and Islands Enterprise and Wright, Johnston and MacKenzie LLP

Inverness event programme:

Sustainability:
The challenge facing Scotland's SMEs and family businesses

University of the Highlands and Islands Executive Office, Ness Walk, Inverness, IV3 5SQ

Friday 9 May 2014, 10.00 – 14.00
Event Programme

10.00	**Registration** (Tea and coffee will be available)
10.15	**Welcome and Introduction** (David C Watt, Executive Director, Institute of Directors Scotland and Director, Goodison Group in Scotland)
10.25	**Scotland's Futures Forum Perspective** (Donald Jarvie, Head of the Business, Scotland's Futures Forum)
10.35	**The Impact of Changing Demographics in Scotland** (Graham Smith, University of Strathclyde)
10.50	**The Often Unseen Challenges and Issues Facing Family Businesses** (Amy McDonald, Creative Training Unlimited)
12.00	**Lunch**
12.30	**Successful Interventions** (Amy McDonald & George Stevenson, Scottish Family Business Association)
13.30	**Assessing the Cost of Business Failure** (Graham Smith, University of Strathclyde)
13.45	**What Is To Be Done? Solutions For Business** (Martin Stepek, Scottish Family Business Association)
13.55	**Closing Remarks** (David C Watt, Executive Director, Institute of Directors Scotland and Director, Goodison Group in Scotland)

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Appendix 4

Family business case studies

These case studies illustrate the type of emotionally-charged discussions that often arise in family businesses, especially during generational transitions, and how a family business consultant can help.

Case study 1: A personal sacrifice?

Susan was studying at university when her father, the founder of their family business, had a heart attack. Susan left university without finishing her degree and joined the business to help her father run the business. She used to say that she did this willingly, having wanted to be in the family business from a young age, but later on Susan felt that she was not given as much credit for this as she felt was due. Susan was one of four siblings. Her eldest sister never showed any interest in the business but over time her younger sister and brother both joined the business. Susan felt that her father did this in order to "keep everyone happy". From a parenting perspective, it is perhaps understandable that someone who has suffered a life threatening illness wants to ensure that his family are "looked after" and one of the ways in which her father did this was through the business by creating jobs for Susan's two siblings. Susan very much saw this as bad for the business and resented the rewards paid to her siblings given, in her opinion, their level of contribution and performance.

As time went on, the increasing demands of the business's growth exposed Susan's siblings' shortcomings. And, in the meantime, her father never really recovered his health completely and relied ever more on Susan, making her feel that she was "pulling everyone along".

Susan became increasingly frustrated about the lack of any progress with her father's "retirement". Given her "sacrifice" (latterly she did tend to see it in this light) Susan had always expected that she would take over ownership and leadership of the family business but her fractious relationships with her siblings was a concern to her father who, despite his ailing health, hung on in there because it seemed to enable people to just get along. He also did a number of private deals with each of his children, including providing loans to buy property, all in an attempt to "keep everyone happy". Everyone knew, instinctively, that this could not last forever but Susan's siblings felt protected by their father and hence they tended to focus their criticism towards Susan for pushing their father to make a decision about his succession.

Somewhat predictably, the anxiety that these exchanges created led to the outbreak of various conflicts.
Clearly this was unsustainable in the longer term but an event then happened that triggered the need for decisions, at least from Susan's perspective. She became pregnant but instead of sharing this news with the rest of her family she decided to

conceal it because of a fear that her father would use this as a reason (excuse?) to defer yet further making any decision over the future of the business, which Susan felt could not be postponed much longer.

Susan sought our advice and from the beginning adopted an assertive (her family might say aggressive) stance in these negotiations. The way the consulting process was handled does not need to be recounted in detail. But, in summary, there were individual meetings and family meetings, a number of options were tabled and Susan consistently came back to a position that the only option for her was taking over the family business on her own. The discussions highlighted that Susan was critical to the success of the family business and without her contribution neither her father nor her siblings were confident that the business would be able to continue. In the end Susan got her way in the negotiations, but at a cost.

The financial cost was raising the money to buy out her siblings who had been given shares by their father (one of the private deals that came to light). However, because of everything that had gone on before and the way the negotiations took place it was clear that if Susan got what she wanted her family would not speak to her again. Susan's desired outcome would entail the emotional cost of being cut off from her family, and given her pregnancy and her parents' illnesses, the cost for Susan was very high.

Using our knowledge of family systems theory we were able to explain this to Susan, enabling her to make a reasonably well-informed decision about her future taking into account the likely consequences of her decision. In the end Susan decided that this was an acceptable cost to achieve what she wanted and the negotiations concluded with an agreement that Susan took over the business. By the time Susan came to us the relationships between her and her father and among her and her siblings had virtually broken down, and meetings were often conducted with none of them communicating directly but only communicating through the FBS consultant. One reaction to this might have been to insist that they needed to start speaking but the level of anxiety that existed (which is understandable after all the facts of the story are set out) would have made this an unreasonable and unworkable suggestion. It was far more practical for the FBS consultant, with a family systems understanding and perspective, to act as a go-between, but only for a while.

The FBS consultant's ability to act in this way as the go-between depended on all of the family perceiving him as a neutral and fair-minded helper.

Once consensus had been reached that the only alternative to selling the business was to let Susan take it over, Susan and her father took separate legal advice to sort out the practicalities of the transfer of the business to Susan.

Susan Hoyle, Consultant, Family Business Solutions Ltd

Case study 2: Turnbull's Family Butchers

Ian Turnbull was a butcher. He loved the business he had started over 40 years ago. From small beginnings and through many ups and downs, it had grown to the point where it employed over 60 people and had sales of over £2.5m per annum. But he was worried. He was in his 70s and his solicitor, whom he had known since he started the business and who had become a friend over the years, had been pressing him again to make a will. The solicitor had first mentioned it during a meeting about a business property transaction about 5 years before when Ian happened to mention how pleased he was to be back running again after his heart attack! And that was before the onset of angina and suspected prostate cancer. But easier said than done. Apart from his house which he owned jointly with his wife, most of his wealth was tied up in the business and therein lay the problem. All four of his children had worked in the business until 15 years before when Ian and his daughter, Jane, had fallen out and Jane had left to set up her own business. Although Ian had helped with some finance, their relationship had been non-existent until the heart attack had softened Jane's attitude towards him and there had been a reconciliation of sorts. But if Ian left the business to the other three children and nothing to Jane, he was concerned that past resentments might resurface once he was gone.

And it wasn't as if there weren't problems between the other three. Simon managed the central meat production facility and provided he got all the orders for the shops out on time, he was left to get on with it and being the youngest he was used to his ideas being ignored by his elder siblings! On the other hand, Andy and Bill were involved in the retail side of the business and despite having once been the best of pals, now seemed to disagree about everything and couldn't work together. Family business meetings involving Ian and the three boys were disastrous. Andy and Bill would argue about everything and both of them would talk over Simon. Ian admittedly was little better. He would eventually have to call a halt and make a decision which increasingly had resulted in him siding with Bill. Not surprisingly Andy became less and less inclined to attend meetings, preferring to concentrate on running the main retail branch and avoiding confrontation. The overall performance of the business was suffering , they were struggling to stay within the bank' s overdraft limit without stretching their creditors and the term loans were coming up for renewal.

So what was Ian to do? If he left his shares equally between the three sons working in the business, how would decisions be made and how would that affect their relationship? Andy would always disagree with Bill and either nothing would be decided or Simon would have to side with one of his brothers against the other. Perhaps if he left a few more shares to Bill, the others would accept him as having more power as the biggest individual shareholder and with it the right to lead and make decisions despite the fact that the other two together could outvote him if they were so inclined. It all seemed so risky and he seemed to have no one to turn to for help. When he had gone to see his Lawyer and tried to explain his difficulty, the lawyer spent most of the meeting telling Ian about how he had experienced similar problems since his own sons had joined his firm. It was all very interesting and although it was comforting for Ian to know that he wasn't the only one with these problems, the lawyer hadn't volunteered any solutions to Ian's "personal family issues". His parting shot was "When you've made up your mind what to do, give me an instruction".

By luck, not long after the less than helpful meeting with his lawyer, Ian happened to be at a Trade Association meeting where the speaker was a family business consultant. Even after a short discussion with him during the coffee break, it became clear to Ian that this was someone that not only *understood* what he was going through and why there were problems arising from the family issues, but had the depth of knowledge and the skills needed to help him and the family work out some solutions.

In a short space of time it became clear to the Consultant that Andy was not "the problem" as perceived by Ian – his behaviour was simply a symptom of the underlying problem, i.e. the business was in the throes of a long drawn out transition from Owner – Manager to Sibling Partnership and crucially, the decision making process for the latter needs to be fundamentally different to the one that suits the former. So often in these situations, the responsibility for managing and taking responsibility shifts incrementally towards the next generation and so it is not easy for the participants to recognise when and how to reorganise, particularly where, as in this case, the founder not only retains ownership but stays actively involved. Inevitably though, without formalising and restructuring, staff get confused about who is the boss, relationships become strained, frustration escalates and both the family and the business suffer.

By involving the family and helping them understand why they were having difficulties (it was systemic not personality defects!) the consultant was able to map out what needed to be done to get things back on track:

- Some training on communication particularly in meetings involving family
- Agreement on basic rules on
    - how to participate in a meeting to ensure the participants don't fall out
    - how to reach decisions through consensus
    - how to move forward if consensus can't be reached.
- Separation of *Ownership* decision making (including Ian) from *Management* decision making (excluding Ian)
- Management structure and job descriptions
- Agreement on future ownership
    - who could own shares in future
    - what would happen to each one's shares on event of death (all different because of their different personal circumstances)
    - how to provide for dependants (again all different)

- Key elements to go into their wills (none of them had wills – a disaster waiting to happen!)
- Powers of attorney for Ian
- Review partnership agreement to avoid potential problems on Ian's death.

With this " blueprint" agreed , the company's and the family's professional advisors were then able to be given clear instructions on the technical work that required to be done in terms of wills, articles, etc., in order to safeguard the family and the business. The input on the ownership and management brought about dramatic improvements to both personal relationships and the performance of the business which has now gone from strength to strength. And when Ian sadly but inevitably did die some months later, everything was in place to ensure that his affairs were able to be dealt with smoothly and the impact on the business minimised. What might have happened if Ian hadn't decided to go to that Trade Association meeting doesn't bear thinking about.

George Stevenson, Managing Director, Family Business Solutions Ltd

Appendix 5

Feedback following the events

The events provoked a good deal of reflection and discussion. Filming at the events captured reflections on the day. You can watch these videos here:

Short version https://vimeo.com/98730546
Long version https://vimeo.com/98743002

Below are samples of delegates' words from the videos, together with samples of feedback provided after the event in the form of emails, Tweets and a blog.

Feedback from business members:

"It's easy to get to these stages [of conflict in family businesses] and not always so easy to get to a resolution."
George Asher, Asher's Bakery, Nairn

"It's very important to run the business as a business and to bring the family in when they have the right attitude and ability to fulfil the business needs."

Deirdrie Kinloch Anderson OBE, Kinloch Anderson

"Realise that you're not alone in this — because I think a lot of families think that they are the only ones who are experiencing this issue … Most family businesses are, by the fact that they work together, dysfunctional … There's always a worse war story than you have and, therefore, if you go and learn and become involved in the community there's a lot of support, and you can then make decisions and take control of the situation."
Jane Wylie-Roberts, MD, Stafffinders

"I think your event hit the right pitch in terms of purpose, a great rosta of talent in the room too. A few of us have organised a lunch to take some themes forward - all in the name of recognising the successful transition of family business!"

Mairi Mickel, The Mickel Fund (by email)

Feedback from people who support businesses:

"One of the things we do not have in the UK and in Scotland is a very clear sense of how many family businesses there are. So a simple box on your VAT return … saying "Do you identify yourself as a family business?" would then allow academics, statisticians and policy-makers to understand exactly how many family businesses there are. Then we can get a much better sense of what is required. This would help us understand what family businesses there are in Scotland, what they look like, where they are located and, crucially, what importance they [have] for the Scottish economy."
Dr Niall G MacKenzie, Strathclyde Business School

"It's really putting this issue on a public platform. It's raising awareness of the importance of not just focusing on start-up and growth but succession … With an ageing population we are going to have less young entrepreneurs coming through and it's really important to sustain Scottish businesses. By putting that message out into the public domain, raising awareness and discussing it, that's part of addressing the market failure."
Sarah Deas, Chief Executive, Co-operative Development Scotland, Scottish Enterprise, and Highlands and Islands Enterprise

Sarah also mentioned "Employee Ownership" as a potential business succession solution during the presentations and during group discussions. Information on employee ownership can be found at www.cdscotland.co.uk and www.cdsblog.co.uk, or by calling Sarah Deas on 0141 951 3067.

"The biggest lesson that I have learned is that no matter how expert I might be in my technical area of the law, if I don't take the time to understand the family business that I'm working with I'm not doing my job right."

Angus McLeod, Wright Johnston Mackenzie LLP

A blog from AJ Enterprises, entitled "SMEs and family business can better utilise education" reported on the Edinburgh event for its readers and identified a number of Higher Education courses that support learning about family businesses:
The blog has been read by people across Scotland and the UK plus Ireland, France, USA, India and Mexico.

Feedback about the event from Twitter included the following comments:

- from @AJentScotland: *Fascinating insight into challenges & rewards of operating & sustaining family businesses, & how they differ from other SMEs*
- @informedscot: *"Every university in Scotland should be providing education for family business" Sure many already are; examples to share?*
- to which Martin Stepek (@martinstepek) responded: *Very few do anything in depth - or at all - about family businesses' unique qualities and challenges.*