A Profile of Succession Planning among Family Business Owners

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Using data from the 1997 National Family Business Survey, this study analyzed 673 family-owned businesses. Consistent with other studies, the findings indicated that only 20 percent had a written succession plan. Among 673 family business owners, only about 14% developed a net worth statement and 13% met with a financial planner or business consultant to discuss estate planning. Those family business owners with a succession plan tended to be older, worked longer hours in their family businesses, had fewer numbers of children, and had higher business management scores than did those business owners without a succession plan. Those who started their own business were less likely to have a written succession plan than those who inherited the business. Female family business owners were less likely to have a succession plan than were male business owners. Based on the findings, implications for financial counselors/planners and family business consultants are presented.

Key words: *Succession, Estate planning, Family-owned business*

Introduction

Succession is one of the inevitable events in the life of an owner of a family business. Many times, the owner's retirement and succession issues involve passing on the ownership to the next generation and keeping the ownership within the family or the extended family. Other times, it may include selling or closing the business. Since transferring ownership and succession decisions require balancing family issues and business development (Frishkoff, 1994), these may constitute very stressful times for many small business owners.

Many factors regarding succession decisions present challenges for family business owners. Family businesses are more than just a job for most family business owners; therefore, decisions about the future of the business often have emotional content for the business owner. In addition, since other family members are often involved with these decisions, succession can cause problems or tensions within the family. An important component in determining successful transition is the time factor; advance planning is essential to allow time to make alterations and preparations in case problems or tensions occur (Kuenster, 1988; Lea, 1991).

Owners should start planning as soon as the business passes the "fight for survival stage"; some recommend beginning the succession planning no later than fifteen years before the owners planned retirement date (Lea, 1991). Even earlier planning would appear important in the eventuality of disability, divorce, or untimely death. Early planning is crucial for family business owners to facilitate the smooth transition of the business to the next generation and assure continuity of the family business.

Despite all its advantages, planning is still inadequate in many family businesses. For example, according to a recent report, over 86 million family-owned businesses in 1996 did not have succession plans

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(Heck & Trent, 1997). Cliffe (1998) states that the senior management in 50% of the family-owned businesses will change by 2008. Most of these companies had no succession plan in place in 1998. Over 66% of these businesses do not have a written strategic plan.

There is little research-based information about the succession planning process among family-owned businesses, nor is there much information about how family business owners utilize financial services. Few studies have examined what motivates family businesses to actually begin succession planning. Therefore, this study is motivated by the great need to understand succession planning itself, as well as the factors that may influence the owners taking steps toward it.

This study utilizes the 1997 National Family Business Survey (NFBS), that was conducted by the researchers who participated in the Cooperative Regional Research Project, NE-167R "Family Businesses: Interactions of Work and Family Spheres." The 1997 NFBS asked business owners if they had developed a written plan to transfer the ownership of the family business. This study intends 1) to profile succession planning among family business owners; 2) to examine how factors such as business characteristics, business owner characteristics, engagement in financial planning, and attitudes regarding transferring ownership of the family business are different between those with and without a written succession plan; and 3) to identify factors that influence the probability of having a written succession plan among the family business owners.

Review of Literature

The problems associated with succession planning in family businesses are widely recognized in both the popular press (Hanson & Nelson, 1999; Kay, 1991; and Merriden, 1998) as well as in the academic literature (Barnes & Hershon, 1976; Birley, 1986; Emshwiller, 1989; Fox, Nilakant, & Hamilton, 1996; Gersick, Davis, & Lansberg, 1997; Handler, 1990, 1994; Kao & Hong, 1995; Kets de Vries, 1993; Kuratko, 1995; Lea 1991; Levinson, 1971; Morris, Williams, & Nell, 1996; Nelton, 1986; and Stavron, 1999). Many of these publications document the results of inadequate planning or inappropriate techniques of transfer.

Several authors have examined and outlined the approaches to successful planning (Cohen & Jackson, 1998; Francis, 1993; Fox et al., 1996; Gersick et al., 1997; Zaudtke & Ammerman, 1997). For example, Cohen and Jackson (1998) suggested value assessment, personnel management, and building a talented work force as effective steps. In addition, Zaudtke and Ammerman (1997) proposed four crucial elements to smooth the way to continued growth which include management, good employment practices, family harmony, and effective estate planning.

The literature also includes issues inherent in the family business structure that often make decisions regarding succession more difficult. Among the issues explored by Berman Brown and Coverly (1999) were problems inherent in succession planning in family businesses. They stated that the problem of finding a successor is difficult and at times the person with the best qualities for the position may be overlooked. Berman Brown and Coverly (1999) concluded that family businesses owners often did not face up to succession planning issues and the fact that they would eventually die. The data in their study indicated that most respondents had not planned for the eventual transfer of their family business. Cliffe (1998) noted that only about one third of family businesses had succession plans in place. Janjuha-Jivraj and Woods (2002) found that only about three out of ten firms survived to the second generation and that about sixteen percent were passed to the third generation; their study supported previous research findings (Dyer, 1989; Kets de Vries, 1996; & Kuratko, 1995).

Some have offered insights into making family business and home-based business transfers with tax and estate planning in mind (Robinson & Rappaport, 1997). Others have recommended alternatives by considering insurance (Kuenster, 1988) and gifting (Wright, 1997) as part of the planning process. Knight and Knight (2000) have examined financial aspects of succession planning and concluded that even if estate taxes were repealed, adequate planning for the financial ramifications of transferring the business from one generation to the next would still be needed. Lea (1991) acknowledges the importance of outside help when suggesting that numerous individuals such as business consultants, lawyers, accountants and financial planners can be called to help in formulating a complete ownership transfer plan.

Studies on succession planning published in the academic literature have focused on various specific issues involving the transfer of the business. For example, the work of Kirschner and Kirschner (1999) recommended sharing the psychological concerns of the current generation with the next generation when considering successful planning in the family business. They contended that involving young people in the business at an early age would enhance the transfer of the business to the next generation. Thus, this present study includes whether the family business owner believes it is important to get children involved with the business.

Lansberg (1999) contended that leaders of family businesses needed to share ideas about the success and continuation of the family business with the next generation. Stavron (1999) examined demographic factors that influenced whether the next generation intended to continue in the family business. She surveyed university students ages 18 through 28 to better understand their intentions regarding their family businesses, and found that about 20 percent of these students did *not* want to take over the family business.

In earlier work, Ambrose (1983) indicated that it was of vital importance to get young people involved in the business. He noted that besides being terminated or being sold to a third party, it was probably better to encourage and enhance opportunities for business owners to transfer the business to the next generation. Ambrose also speculated that it was more costly to begin a new business than to transfer an existing business. To enhance the chances of the business being transferred to the next generation, he recommended giving children positions with substantial responsibilities while they were still young. Ambrose (1983) also stated that "the development of an early interest and personal commitment appear to provide the best assurance of transferring the business" (p.55).

Other work has examined the succession issue related to the family farm. Specifically, Taylor, Norris, and Howard (1998) examined succession issue in Canadian farm families. They noted that most farms in North America were family businesses that were passed from one generation to the next, often from father to son. Taylor et al. (1998) identified ways in which farmers viewed and interpreted succession strategies, taking into account the ethnic background of the farmers and expectations associated with the transfer.

The role of women and succession issues are addressed to a limited extent in the literature. Problems unique to transferring the family business from mother to son is explored by Kaslow (1998), while others (Janjuha-Jivraj & Woods, 2002) have examined the role of women in the transfer process, contending that mothers of the heirs often found themselves in the role of mediator and buffer between the generations. Like the Canadian farmer study, Kaslow (1998) contended that historically family businesses were most frequently passed from father to son or to another male relative. However, with more women owners of family businesses, succession issues took on new relevance. Kaslow (1998) noted that at least historically few women were socialized in terms of starting and managing their own business, nor were they socialized in terms of succession issues regarding the transfer of the business to the next generation. Thus, one would expect that women would do less planning and preparation of written succession plans than men. To address this issue, the current study specifically includes gender differences in succession planning.

Ayers (2002) discussed expectations regarding the equitable treatment of the next generation. He contended that the next generation should not be treated as equals, but in an equitable manner. Ayers (2002) mentioned that trying to treat all one's children equally might in fact hamper succession planning and noted that most family business owners did, in fact, try to treat each member of the next generation equally. For this reason, the current study examines whether business owners believe that their children should be treated equally and whether this factor could be any indicator of owner's engaging in succession planning.

A few studies (Berman Brown & Coverly, 1999; Janjuha-Jivraj & Woods, 2002) have examined succession planning within family businesses in societies other than the United States, essentially uncovering a lack of planning much as in the U.S. Bachkaniwala, Wright, and Ram (2001) focused on succession in south Asian family businesses in the United Kingdom. They lamented that "succession remains a problematic and neglected issue in ethnic family business, like many family businesses in general" (p.25). Bachkaniwala et al. (2001) used a case study analysis, but argued that a large-scale survey was needed. In their work on Asian family businesses in Kenya, Janjuha-Jivraj and Woods (2002) found that business owners had vastly different attitudes about succession planning.

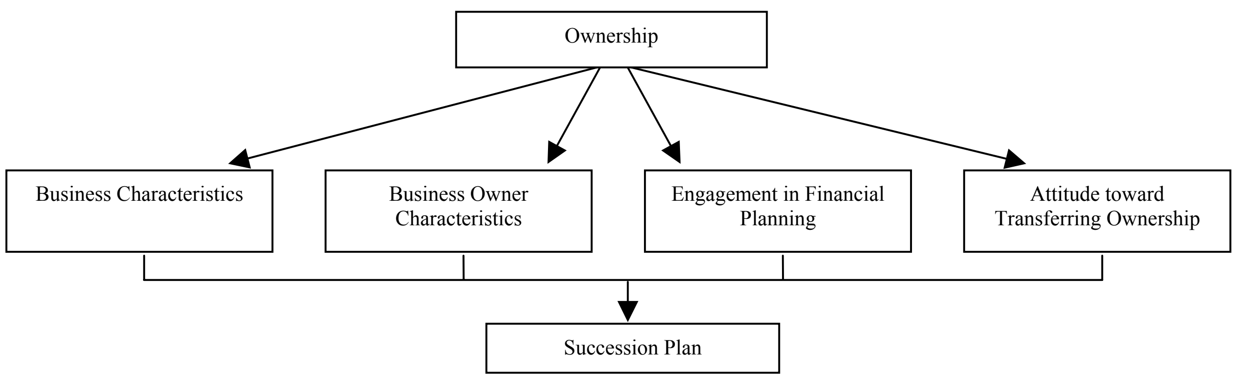
All previous studies have touched on general aspects of succession planning within the family-owned business such as approaches to succession planning and issues involving the transfer of the businesses within the family-owned business. However, they did not include a model that takes into consideration the number of factors such as business characteristics, business owner characteristics, or business owners' financial planning behavior and attitude toward transferring ownership that may influence succession planning. The present study considers such factors and includes them in a model of succession within the family-owned business.

Model of Succession in Family-Owned Businesses

A model was developed by Jasper and Goebel (1996, revised 2000) to explain succession planning among family business owners and was incorporated into the 1997 National Family Business Survey. This model (Figure 1) places succession planning within the larger context of the family business environment. The theoretical basis for the revised model is derived from the conceptual work of Stafford, Duncan, Danes, and Winter (1999) in collaboration with Jasper and Goebel. Resource management processes and constraints in times of change and stability, structure and age of the business, interpersonal relationships, financial and income variations are relevant concepts to the succession planning process as it relates to family-owned businesses. These issues of sustainability are the focus of the research model developed for this study.

Based on the literature in the academic as well as popular press, various questions evolve about the state of succession planning in family-owned businesses.

Figure 1



Jasper and Goebel (1996, revised 2000)

Many questions regarding succession planning arise, such as what business characteristics, business owner characteristics, financial planning behavior, and attitudes toward transferring ownership contribute to succession planning. Thus, to develop an operational model that would lead to analysis of succession planning among family business owners, the following questions were posed.

What is the likelihood of having a succession plan based on:

- Business characteristics including a) gross business income, b) number of employees, c) whether or not the business is home-based, d) whether the business is a first-generation family business, and e) whether the business is a recent start-up.
- Business owner characteristics including a) age, b) education level, c) hours worked in the business, d) owners' managerial activities, e) gender, f) number of children, g) race/ethnicity, h) marital status, and i) health status.
- Level of engagement in financial planning; that is, did the owner(s) a) talk about their goals to their families regarding the future of the business; b) develop a net worth statement; c) meet with a lawyer; d) meet with an accountant, financial planner, or business consultant; e) make or update their wills?
- Attitude about transferring ownership, that is, the importance placed on a) treating all their children equally; b) getting their children started in the business; c) proving financial security for

themselves and survivors; d) keeping the business within the extended family.

Hypotheses

Consistent with the model of succession in the family-owned businesses (Figure 1), it is hypothesized that those who have previously engaged in financial planning by talking to their family members about goals for the future of the business, by developing a net worth statement, by meeting with lawyers for estate plan, by meeting with financial planners or business consultants, and by making or updating a will in the last five years would be more likely to have a written succession plan. Likewise, it is hypothesized that those with higher levels of transferring ownership attitudes (e.g., it is important to treat children equally, to get children started in the family business, to provide financial security for themselves and survivors, and to keep the business within the extended family) would be more likely to have a written succession plan. Further, on the basis of previous research, it is expected that those business owners who had higher business income, who had a larger number of employees, who worked more hours in the business, who had a higher management score, who were older, who had a higher level of education, who had a larger number of children in the family, who were White, who were married, and who had a higher level of perceived health would be more likely to have a written succession plan. Previous research has not considered ethnic background of the business owner as an additional indicator of succession planning behavior, which this study takes into account.

Methods

Data and Sample

The data for this study are from the 1997 National Family Business Survey, a national probability sample involving 14,000 households that were screened via telephone to ascertain whether someone in the household was the owner of a family business (Winter, Fitzgerald, Heck, Haynes, & Danes, 1998). The sampling frame consisted of households in all 50 states with a listed telephone number. During 1997, the staff at Iowa State University Statistical Laboratory conducted telephone interviews. From the 1,116 eligible households, 794 participated, generating an overall response rate of 71.1%. There were 673 households with a family business that completed both the business and household interviews, for a 60.3% response rate, and the 673 family-owned businesses were analyzed as the sample of this study.

In the 1997 National Family Business Survey, 88% of the family businesses had fewer than 10 employees; 55.1% were sole proprietorships; 68% were located in communities with fewer than 50,000 people; and one-quarter have been in business for 5 years or less. Nearly all of the business owners in this study were non-minorities and 31% of the owners were women. About 34% were 40 years of age or younger; 40% were college graduates; 89.7% were married; 51.3% had less than 10 years of experience in managing a business; over one-half had children younger than 18 years of age in the household; and 25% had a household net worth greater than $250,000.

Variables

The dependent variable in the multivariate analysis is whether business owners have developed a written plan to transfer the ownership of the family business when they retire or die. The variable is a dichotomous variable where a "1" represented “yes” that they have developed such a plan. The model that was developed by Jasper and Goebel (1996, revised 2000), as well as the relevant literature and available data guided selection of the independent variables used in this study. The independent variables are categorized: business characteristics, business owner characteristics, financial planning behavior, and attitudes about transferring ownership. The measurements of variables included in the multivariate analysis are presented in Table 1-A and 1-B.

Business characteristics include gross business income, business size (number of non-family employees), type of business (home-based, non home-based), generation type (first, second, and third or more generation), business origination type (purchased, started, and inherited the business). Business owner characteristics include age, education, number of children in the family, hours worked in the business, business managerial activities, gender, race, marital status, and health status.

Managerial activities is a scale which measures the extent the business owner participates in a set of ten business management activities: customer satisfaction assessment, evaluating the quality of service or products, advertising, estimating costs/expenses, financial record preparation, estimating personnel needs/costs, employee evaluation, worker motivation, business objectives, and written strategic planning. Each management activity is rated from one to five, where "5" represents that the activities being done to a great extent and "1" represents that the activity is not being done at all. The possible range of values, then, is 10 to 50.

There are five items that represent their engagement in financial planning: whether business owners talked to their family about their goals for the future of the business, whether they developed a net worth statement for an estate plan, whether they met with a lawyer to discuss estate planning, whether they met with financial planners/business consultants to discuss estate planning, and whether they made or updated their wills in the last 5 years. Each of these variables is a dichotomous variable with an "l" indicating that it was reported by the business owner, as being one of the ways that they had completed such plans.

There are four variables that measure the attitude toward transferring ownership. In the survey, the business owner was asked how much importance is placed on each of the following four items: 1) treating children equally; 2) getting children started in family business; 3) providing financial security for themselves and survivors; and 4) keeping the business within the extended family. A response of "extremely unimportant" is coded 1 and "extremely important" as 5.

Frequencies and means were calculated to obtain the descriptive information on business characteristics, business owner characteristics, financial planning behavior, and transferring ownership attitudes. Chi-square and t-tests were performed to determine differences in the above variables between those with and without a written succession plan. A logistic regression was conducted to determine the variables that predicted the probability of having a written succession plan among the family business owners.

Results

Descriptive Statistics

Descriptive statistics of the total sample are presented in Table 1-A and 1-B. Only 20% had a written succession plan. The annual mean business income was $952,041 and median business income was $75,000. The average number of non-family employees was 7.0 in the sample. Over half of the sample reported their family businesses as home-based and first generation; almost 70% reported their family businesses as a start-up.

The average age of the business owners was 46, and their average education level was approximately 14 years. The average number of children in the family was 1.4 and the average weekly work hours by business owners was approximately 43 hours. The average management score on the scale of 10 to 50 was 31.3. The sample was predominantly male (72%), white (95%), and married (92%). Almost 90% of the business owners reported their perceived health status as either good or excellent.

Table 1-A
Measurement of Continuous Variables (*N=673*)

	Mean	Median
Gross business income in 1996	$952,041	75,000
No. of non-family employees	7.0	1.0
Age	46.1	45.0
Education	14.2	14.0
No. of children under age 18	1.4	1.0
Hours worked per week in business	42.8	46.0
Business management score	31.3	31.0
Transferring Ownership Attitudes		
Treat children equally	4.0	5
Get children started in business	2.5	3
Provide financial security	4.4	5
Keep business w/in family	2.8	3

Table 1-B
Measurement of Categorical Variables (*N=673*)

	Frequency	Percent
Type of business		
Home-based	376	55.9
Non-home based	297	44.1
Generation type		
First generation	102	49.8
Second generation	76	37.1
Third and more	27	13.2
First involved type		
Start	463	70.2
Inherit	26	3.9
Purchase	171	25.9
Gender		
Male	484	71.9
Female	189	28.1
Ethnic classification		
White	632	93.9
Non-white	41	6.1
Marital status		
Married	622	93.9
Non-married	51	6.1
Health status		
Excellent	278	41.3
Good	324	48.1
Fair/Poor	71	10.6
Financial Planning Behavior		
Talked to family about business future	435	64.6
Developed a net worth statement	207	30.8
Met with a lawyer for estate plan	179	26.6
Met with a financial planner/ business consultant	279	41.5
Made will in the last 5 years	221	32.8

Among the family business owners, 65% of the sample talked to their family about their goals for the business future, 31% developed a net worth statement for estate planning, 27% met with a lawyer to discuss estate planning, 42% discussed estate planning with a financial planner or business consultant, and 33% made or updated their wills in the last 5 years. Table 1-A and 1-B also indicates the attitude among the family business owners toward transferring the ownership of the family business. The mean number of the rating regarding the importance of treating children equally was 4.0, ranging on a scale from 1 (extremely unimportant) to 5 (extremely important). Mean values for getting children started in business and keeping the business within the extended family were relatively lower at 2.5 and 2.8, respectively. The mean number of the rating regarding the importance of providing financial security for family was 4.4, indicating the attitude of family business owners toward preparing retirement and financial security for their family members was relatively high.

Profile of Business and Business Owner Characteristics with and without a Plan

Table 2-A and 2-B compares business characteristics and business owner characteristics between those with a written succession plan and those without a succession plan. Those with a written succession plan had a much higher mean level of business income ($2,396,763) than did those without a succession plan ($582,775). Those with a succession plan had more non-family employees and had fewer children than those without a succession plan.

Table 2-A
Profile of Family Business and Business Owner with and without Succession Plan

Variables and results of t-tests of differences in means	Does not have succession plan (*n* = 536)	Has succession plan (*n* = 137)
Gross business income***	$582,775	$2,396,763
Number of employees***	4.4	17.0
Age***	44.9	50.4
Education	14.1	14.3
Children***	1.4	1.0
Management scores***	30.7	33.5
Hours worked*	42.2	45.6

*p<.05,**p<.01,***p<.001

Table 2-B
Profile of Family Business and Business Owner with and without Succession Plan

Variables and results of chi square tests of independence	Does not have succession plan (*n* = 536)	Has succession plan (*n* = 137)
Type of business***		
Home based	46.8%	9.1%
Non-home based	32.8%	11.3%
Generation type		
First generation	35.1%	14.6%
Second	27.8%	9.3%
Third and more	8.8%	4.4%
Business origination type***		
Start	58.5%	11.7%
Inherit	2.6%	1.4%
Purchase	18.8%	7.1%
Gender***		
Male	54.8%	17.1%
Female	24.8%	3.3%
Ethnic classification		
White	74.4%	19.5%
Non-white	5.2%	0.9%
Marital status		
Married	73.1%	19.3%
Non-married	6.5%	1.0%
Health status		
Excellent	32.8%	8.5%
Good	38.3%	9.8%
Fair/poor	8.5%	2.1%

* $p < .05$, ** $p < .01$, *** $p < .001$

The family business owners with a succession plan were significantly older than those without a succession plan (50 years compared to 45 years). Those with a succession plan worked significantly longer hours than those without a succession plan (46 compared to 42). Those with a written succession plan had significantly higher business management scores than those without a succession plan. A majority of the business owners with a succession plan were male (83.9%), White (95.6%), and married (94.9%). Among the 189 female business owners, only 3% had developed a written succession plan. When comparing the family business with a succession plan to those without a succession plan, the characteristics of the family businesses owners such as education, ethnic classification, marital status, and health status were not significantly different between the two groups. Both those with plans and those without plans reported their health to be either excellent (41%) or good (48%).

Profile of Financial Planning Behavior with and without a Plan

Table 3 contrasts the financial planning behavior of those who have and those who do not have a written succession plan. Five questions were asked about the engagement of the family business owned in financial planning. Results of the Chi-square test indicate that all five items are statistically significant.

Of those with a written succession plan, about 20% have not talked to family about their goals for the business future and about 30% have not developed a net worth statement for estate planning. About 40% of those with a succession plan have not met with a lawyer to discuss estate planning and about 35% of those with a succession plan have not discussed estate planning with business consultants or financial planners, and about 14% of those with a succession plan have not made or updated their will in the last 5 years.

Table 3
Financial Planning Behavior

Variables and results of chi square tests of independence		Does not have succession plan (*n* = 536)	Has succession plan (*n* = 137)
		Cell percentages	
Talked to your family about your goals for the future of the business***	Yes	48.4%	16.2%
	No	31.2%	4.2%
Developed a net worth statement for setting up or updating your estate plan***	Yes	16.8%	13.9%
	No	62.8%	6.4%
Met with a lawyer to discuss estate planning***	Yes	14.4%	12.2%
	No	65.2%	8.2%
Met with an accountant, a financial planner, or a business consultant to discuss estate planning***	Yes	28.1%	13.4%
	No	51.6%	7.0%
Made or update your will in the last 5 years***	Yes	19.3%	13.5%
	No	60.3%	6.8%

* $p < .05$ ** $p < .01$ *** $p < .001$

Profile of Transferring Ownership Attitude with and without a Plan

Table 4 compares attitude toward transferring ownership between those with and without a succession plan. Responses to each of the four items describing transferring ownership attitude were statistically significant between the two groups: treating children equally, getting children started in the family business, providing financial security for themselves and spouses, and keeping the family business within the extended family. For each of the four items, those who had a succession plan reported higher mean numbers on the scale of 1 (extremely unimportant) to 5 (extremely important) than those who did not have a succession plan.

Table 4
Attitudes toward Transferring Ownership

Variables and results of t-tests of difference in means	Does not have succession plan (*n* = 536)	Has succession plan (*n* = 137)
	Means	
Important to treat your children equally***	3.97	4.32
Important to get one or more children started in the family business***	2.38	2.86
Important to provide financial security for yourself or your survivors ***	4.30	4.66
Important to keep the family business within the extended family***	2.66	3.31

* $p < .05$, ** $p < .01$, *** $p < .001$

Logistic Results

Table 5 indicates the factors that explain the probability of having a succession plan among the family-owned business. Variables from all four components of the proposed model were statistically significant. (χ^2 =210.29***) Among the selected business characteristics, the business origination type was significant, indicating that those who started family businesses were less likely to have a written succession plan than were those who purchased family businesses. As for business owner characteristics, only gender contributed to explaining the probability of having a written succession plan in the family-owned business; that is, female business owners were less likely to have written succession plans than were male business owners.

Of those financial planning variables, three variables were significant in explaining the probability of having a succession plan. Those business owners who have developed a net worth statement, those who have met with a lawyer, and those who have made or updated wills in the last 5 years, were more likely to have a written succession plan. A positive relationship between some attitudes toward transferring ownership and having a succession plan in the family business was also noted. Specifically, treating children equally and keeping the family business within the extended family were the important measures of attitudes that were related to having a succession plan.

Table 5
Logistic Regression of Succession Planning (*n=673*)

Variables (reference group)	Parameter Estimate	Wald Chi-Square
Business Characteristics:		
Gross business income (log)	-0.080	1.907
Number of employees	0.006	2.293
Type of business (Non-home-based)		
Home-based	-0.413	2.178
Generation type (First generation)		
Second	-0.450	0.954
Third and more	-0.203	0.103
Business origination type (Purchase)		
Start	-0.954***	9.195
Inherit	-0.301	0.234
Business Owner Characteristics:		
Age	0.015	1.322
Education	-0.035	0.407
Children	-0.160	1.895
Hours worked	0.009	1.059
Business management	0.005	0.093
Gender (Male)		
Female	-0.555+	2.959
Ethnic classification (White)		
Nonwhite	0.107	0.032
Marital status (Non-married)		
Married	0.246	0.207
Health status (Fair/poor)		
Excellent	-0.229	0.301
Good	-0.482	1.413
Financial Planning Behavior		
Talked to family about business future	0.418	2.107
Developed a net worth statement	1.205***	18.285
Met with a lawyer	0.760***	6.788
Met with a financial planner/business consultant	0.076	0.071
Made or update will in the last 5 years	1.186***	21.661
Attitude about Transferring Ownership		
Important to treat children equally	0.212*	4.291
Important to get children started in family business	0.035	0.120
Important to provide financial security for yourself	0.174	1.407
Important to keep business w/in the extended family	0.202*	4.281
Equation Log Likelihood =469.85	χ^2=210.29	

Summary, Implications, and Conclusions

The findings of this study show that many family business owners have not adequately planned for the transfer of their businesses. Those business owners with written succession plans had businesses with higher incomes and more employees. Those business owners with succession plans were also older, worked longer hours in the business, and had fewer children in the family than those without written succession plans. The logistic regression results indicated that gender of the business owner and business origin type were the significant factors that determined the probability of having a written succession plan.

Some support for the proposed model was found. Consistent with hypotheses, those who have developed their estate planning and those who have made or updated their wills were more likely to have a written succession plan. The results supported the hypotheses that those who have placed a greater importance on treating children equally and keeping the business within the extended family were more likely to have a written succession plan. The findings imply that family business owners need to give careful thought to succession planning and that financial planners/business consultants need to provide business owners with strategic succession plans that include encouraging sharing any anxiety with the planner and among family members as well as paying attention to a will. As hypothesized, women business owners did not engage in written succession plans as much as did men business owners and those owners who started the business were less likely to prepare a written succession plan than were those owners who purchased the business. Thus, financial planners and counselors are encouraged to target populations such as women business owners or newly started family businesses.

Financial planning in terms of succession planning is a very complex procedure that entails more than just passing on the ownership to the next generation. Since strategic planning for succession of the family business has been largely ignored by many of these professionals and researchers, financial counselors who encounter family businesses need to take into consideration the unique challenges of each business, the emotional component involved in business transfer, and perhaps uncover how family business owners have developed the types of succession planning they have or are considering. In addition, financial professionals need to give family business owners a help to solve business problems or other issues inherent in the family business, then the owners are able to make decisions regarding succession more easily.

It is important for business consultants, lawyers, accountants, and financial planners to facilitate family business owners in utilizing their financial services. To assist family businesses with formal succession plans, the following strategies can be used by financial professionals: 1) develop and conduct educational sessions regarding succession planning for family business owners and their families; 2) develop procedures that clearly identify the steps that need to be taken to successfully complete the succession planning process; 3) provide examples of the types of succession plans that other family business owners have implemented; and 4) set up future dates with the family business owners to review succession plans.

Prior research indicates that most family businesses fail to make it to the second generation (70%), and even fewer (16%) pass to the third generation (Janjuha-Jivraj & Woods, 2002; Dyer, 1989; Kets de Vries, 1996; & Kuratko, 1995). Financial planners, counselors, lawyers, and educators who are working with family businesses need to help those business owners make a successful plan that would keep the business stable over the generations, enhance family relationships, and pass on family values relating to their family-owned businesses.

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