

**CHARTERED ACCOUNTANTS:  
KEY PLAYERS IN BUSINESS SUCCESSION PLANNING?**

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## **ABSTRACT**

Expanding on previous quantitative studies of business succession planning (BSP) by small and medium enterprises (SMEs) in New Zealand, this study provides qualitative data on the BSP process and the usefulness of Chartered Accountants' (CAs') input into that process. The owners of five provincial family SMEs who had all commenced BSP, were interviewed and provided comments on their perceptions of the process. BSP was primarily undertaken in a semi-formal manner and was found to be useful, particularly in planning for change to a "more balanced lifestyle", providing reassurance to family members and maintaining business continuity. Assistance from CAs was essential, especially with the technical and financial issues of succession. Successful advice was enhanced by a long-term, trustworthy and honest relationship between the CA and the client. SME owners preferred to address the emotional and personal relationship issues of succession without input from the CA. Four recommendations to Chartered Accountants on their involvement in BSP are suggested.

Keywords: business succession planning, New Zealand, accountants, advice, SME

## INTRODUCTION

SMEs constitute a large proportion of New Zealand businesses. The predicted increase in SME owners nearing retirement and departing the trading economy in the next ten years suggests that there will be a substantial impact on the New Zealand economy, in terms of firm valuation and survivability, retirement and employment. Planning for succession of businesses therefore takes on critical importance, but research indicates that less than half of SME owners are engaging in this type of planning (Battisti & Massey 2008). For those who are, the Chartered Accountant (CA) appears to be an important advisor to that process (Lewis *et al.* 2007). Although accountancy firms are now targeting this potential market for their services, there is little research into the particular services to which CAs could add the most value. Accordingly this current study addresses a gap in the literature by providing qualitative research into the CA-client relationship in business succession planning, and the usefulness of the CA's advice in that process. As a consequence of this, it also makes a number of recommendations to the New Zealand accountancy profession.

The next section addresses the background literature and research objectives, whilst the later sections cover method, results and discussion and recommendations.

## PRIOR LITERATURE AND THE RESEARCH OBJECTIVES

New Zealand is predominantly a country of small businesses with SMEs<sup>1</sup> (usually family owned<sup>2</sup>) making up 99.6 per cent of all enterprises and accounting for 53.6 per cent of total employment and 39% of gross domestic product (Ministry of Economic Development 2007;

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<sup>1</sup> SMEs are categorised in this paper as follows: micro enterprises employ less than five staff members, small enterprises employ between six to 49 staff members, and medium enterprises employ between 50 and 99 staff (Battisti & Massey, 2008).

<sup>2</sup> There is no universally accepted definition of a 'family business' (Litz 1995) but in this paper a family business is treated as a business where the ownership and policymaking are dominated by members of an emotional kinship (Carsrud 1994).

Wallace & Bellingham 2008). However these SME owners are an aging cohort; the average age of New Zealand small business owners is estimated to be in the mid 50s, with a significant portion of them being over 60 years of age (Wallace & Bellingham, 2008). A longitudinal study of a sample of over 1300 New Zealand SMEs (Battisti & Massey 2008) found that 34 per cent of owners intended on leaving their firms within the next five years, increasing to 64 per cent within the next ten years. This demographic profile could have profound consequences for individuals and the country alike, in terms of firm survivability, firm market valuations, retirement conditions and employment statistics.

Of interest then, is whether the incumbent owners are planning for departure from their respective firms. Some owners may “shut up shop” but others may desire some form of business succession; i.e. the “transfer of control and ownership” (Whitney 2005 p.6) of a business from the current owner(s) to other persons such as family members, employees, management or an external buyer. The plan of this long-term, multiple activity process (Sharma *et al.* 2003a; Malinen 2004) is called a Business Succession Plan (hereafter BSP).

Literature tends to indicate that succession planning fosters business continuity and increases the probability of a successful succession (Morris *et al.* 1997; Sharma *et al.* 2003a). Firstly, BSP can enhance the transfer of business knowledge which is of key importance for performance in today’s knowledge economy (Ernst Young 2006). Secondly, planning can help to minimise future tax liabilities and enhance the financial stability and value of the firm (Battisti & Massey 2008). Without a BSP, SME incumbents may not be able to realise the value of their substantial capital which is tied up in the business (Weil 2007; Wallace & Bellingham 2008). This is inconsistent with the very high priority for retirement funds generation espoused by SME owner respondents in the Battisti & Massey (2008) survey. A

third aspect relates to the common desire of family firm owners to have family continuity in the firm (Sharma *et al.* 2001; Sharma *et al.* 2003b). In this case, a BSP may serve to identify an heir from amongst seemingly reluctant candidates due to their different training (e.g. other professional careers), their gender (i.e. male succession has been traditional) (Martin 2001; Ibrahim *et al.* 2008) and different (Generation's X and Y) lifestyle aims<sup>3</sup> (Wallace 2008). It may also minimise conflicts among apparent heirs, heightened emotions and sensitive estate issues (Sharma *et al.* 2001; Motwani *et al.* 2006) which may contribute to the lower survival rate of family businesses compared to non-family firms (Ibrahim *et al.* 2004).

Despite these benefits of BSP, Battisti & Massey's (2008) results show that only forty-seven per cent of New Zealand SME owners had an exit plan, which was more likely to be unwritten and informal than formal. Both family and non-family businesses provided similar reasons for not having an exit plan, such as prematurity or a lack of time to develop one (Battisti & Massey, 2008). This is unfortunate as literature indicates that it might take up to ten years to plan for business succession (Morris *et al.* 1997; Malinen 2004).

BSP is a lengthy process as there is no standard model or rules to fit all types of businesses (Sambrook 2005; Ip & Jacobs 2006), But in general there are three main (iterative) steps: step one, consideration of the BSP issues, step two, development of a succession plan, and step three, the application of methods (Ip & Jacobs 2006). The most common BSP options are generational succession (Verry 2008), selling the business (Sharma *et al.* 2003a) and

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<sup>3</sup> Although there is some debate as to whether generations differ in their characteristics there is other evidence to suggest that they do (Howe & Strauss 2000), and that this could impact on BSP. Those born between 1935 and 1945, typically display strong work attachment, strong work ethic and devotion to the firm. The 'baby boomers' (born 1946-62) also display a strong work ethic but less devotion to the firm, evidenced by engagement in early or partial retirements (Leach *et al.* 2008). Generation X (born 1963-1981) reputedly have little belief in job security, expect a balance between work and leisure and expect work to be fun (Davis *et al.* 2006) whereas Generation Y workers crave energetic and innovative organisations and have a sense of entitlement to accelerated career progression (Earle 2003).

management buy-out (entails a negotiated purchase agreement) or management buy-in (the incumbent stays in the business, but his/her responsibilities are scaled down) (Napoli 2006).

Both ‘soft’ and ‘hard’ issues (Ramsden & Bennett 2005) arise in the BSP process. ‘Soft’ issues relate to personal, family and relationship concerns (Malinen 2004), such as, ensuring stakeholders are comfortable with the BSP, the incumbent’s inability to relinquish control (Besson & Haddadj 2002), the firm’s dependence on the incumbent (Wallace & Bellingham 2008), finding, selecting and training a successor (Sharma *et al.* 2003b; Ibrahim *et al.* 2004; Sambrook 2005), communication and maintaining family relationships (Malinen 2004; Wallace & Bellingham 2008), and accommodating the ideas of forthcoming Generations X and Y (Owen 2007). The ‘hard’ issues of BSP relate to “inheritance, monetary, technical, legislative matters, and the details of executing the ownership change issues” (Malinen 2004 p.132). They include issues such as time constraints (Battisti & Massey 2008), taxation and finance (Malinen 2004; Hayes Knight 2006), shareholding arrangements, estate planning (Weil 2007), documentation (McIntyre- Smith 2005) and business valuations (Reeb 2005; Ip & Jacobs 2006; Wallace & Bellingham 2008).

Because of SME owners’ inability to find time to develop a BSP, the complexity of the process, and the expected positive outcomes, it is suggested that these owners may need (professional) advice to engage in business succession planning (Battisti & Massey 2008)<sup>4</sup>. Over the last few years, New Zealand Chartered Accountants (CAs) have been up-skilling and promoting their abilities to provide such advice (Haylock 2004; Hayes Knight 2006; Kelly 2008; Wallace & Bellingham 2008). Certainly, New Zealand empirical studies by Lewis *et al* (2007) and Battisti & Massey (2008) confirm that accountants are the most

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<sup>4</sup> Overseas studies indicate an increase in external advice- seeking behaviour by SMEs in the last ten years (Ramsden & Bennett 2005).

frequently consulted and most useful business advisors of SME owners, both for BSP advice and other matters.

Advisor usefulness is a concept describing the helpfulness, value and worth, and effectiveness of the advisor and his/her advice. In Lewis et al's (2007) interviews of SME owner-managers, they did not define the concept, but instead asked for interviewees' perceptions. A similar approach is used in this study of the BSP process. However, Chaston & Baker's (1998) empirically-tested model may provide some more specific guidance as to the meaning of the concept in this context. Their thirteen advisor characteristics are those which SME owners perceive provide positive impact on the success of the business. These include the advisor's personal attributes, business skills (Mole 2002), contact regularity, personal information sharing (client and advisor (Kelly 2008)), close problem-solving relationship (Yaniv 2004; Mole 2007), availability (Wallace & Bellingham 2008), competence (Mole 2002), consistency, openness, trustworthiness (Seal & Vincent-Jones 1997; Lewis *et al.* 2007; Mole 2007), commitment to problem-solving and listening ability. 'Soft' issues appear to be as important to the SME owner as the delivery of 'hard', technical advice (Ramsden & Bennett 2005). However the training of CAs is primarily in the more task-orientated technical accounting and business environment/market-related issues (Ramsden & Bennett 2005; New Zealand Institute of Chartered Accountants 2007)<sup>5</sup> and they conceivably might be less well- equipped to deal with the complex and emotional or personal problems ('soft' issues) experienced in SMEs (particularly family firms) (Smyrnios *et al.* 2000).

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<sup>5</sup> Chartered Accountants must pass a seven year program of academic, professional and practical training concerned with planning, measuring, communicating and advising, interpreting, analysing and assisting with decision-making on financial activity (Half 2001).

Due to the lack of BSP by SME owners in New Zealand, and the targeting of BSP advice by New Zealand CAs, it seems an appropriate time to investigate whether these CAs are, in fact, providing useful advice to SME owners on the BSP process and to identify areas for improvement. In addition, Battisti & Massey (2008) have called for more qualitative studies into the dynamics of transferring ownership from several perspectives including that of the owner-manager. Together, these form the primary motivations for the current study. Accordingly this research study has four primary objectives. Firstly, it seeks to address the scarcity of qualitative research into BSP from the perspective of SME owner/managers (Battisti & Massey 2008). Secondly, it aims to understand and describe SME owners' experiences of BSP development, in particular in relation to professional CA advisor involvement. Thirdly, the usefulness of the BSP and its development process, as well as the involvement of the professional CA advisor, will be explored. And finally, the fourth objective is to provide recommendations to New Zealand CA public practice firms concerning the provision of BSP advice.

## **METHOD**

In order to meet the first research objective, the research method utilised is a thematic and interpretative analysis of interviews undertaken with five SME incumbent owners aged between forty and sixty years of age. These SME owners are all clients of a medium sized CA public practice firm based in a provincial city in New Zealand. The CA firm ('Account Ltd.') has 1,300 clients, with a team of 43 staff members, seven of whom have contact with clients and are advising on BSP. The interviewees' firms were chosen from the Account Ltd's SME client base to provide a range of size and industry type (see Table 1) and because the Managing Director perceived that the owners would be receptive to participating in



research<sup>6</sup>. In addition, each SME owner had their own CA advisor in Account Ltd and all engaged in BSP at some level.

*Insert Table 1 about here*

All owners who were approached for interview agreed to participate and the forty-five minute semi-structured tape-recorded interviews<sup>7</sup> took place in December 2008, after ethical approval had been obtained from the researchers' university. Semi-structured interviews were used as it was deemed that they would be the most appropriate way of exploring the participants' perceptions (Alvesson & Deetz 2000; Silverman 2000; Lewis *et al.* 2007) of the usefulness of the BSP plan and of the usefulness of their CA's advice in the process of BSP. The guiding questions used in the interview are found in Appendix 1. The interviewees were asked to describe their own BSP process, its instigation, problems and pitfalls, the CA's involvement and usefulness, their relationship with their CA and so on. Probing questions were used when the interviewee had difficulty in answering questions.

Interviews were transcribed, and then consulted repetitively along with the interview notes to provide a manual analysis (coding) of emergent themes (Darlington & Scott 2002). Similarities and differences were also noted. The themes were informed by literature and in the case of "usefulness" specifically by the work of Chaston & Baker (1998). From these themes, recommendations on CAs' BSP advising practices were developed and subsequently

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<sup>6</sup> It is acknowledged that this may provide some bias to the results, displaying Account Ltd in a favourable light. However the Managing Director was participating in this project in order to improve his firm's BSP advice and so in order to fulfil that aim, it would be unlikely that he would suggest firms that were entirely satisfied with the process.

<sup>7</sup> Written notes (both descriptive and reflexive) were also recorded.

presented to the three Account Ltd CA advisors for feedback. All recommendations were supported by the CA advisors.

Interviews are an “excellent means of finding out how people think or feel in relation to a given topic” (Darlington & Scott 2002 p.50) and this was especially valuable when discussing BSP as it can be a long, variable and emotional process (Sharma *et al.* 2003a; Sambrook 2005). However the researchers do recognise the potential limitations of interviews, such as omissions in participants’ recalled memory, time limitations curtailing further exploration of issues, power imbalances and influences of the interviewer’s “life history”, perceptions and interpretative stance (Darlington & Scott 2002).

In addition, generalisability of this study is limited by the small number of interviewees, the established nature and provincial location of their businesses (Birnberg *et al.* 1990) and the national economic outlook at the time of interviewing<sup>8</sup>. On the other hand issues of validity, reliability and trustworthiness of the data (Tashakkori & Teddlie 1998) were addressed through a number of processes. Initial identification of firms undergoing BSP plus confirmation at the beginning of the interview ensured a subject-appropriate sample. Consistent use of one researcher for the interviews, and her paraphrasing of interviewees’ responses for confirmation within the interview enhanced credibility and reliability (Lincoln & Guba 1985; Alvesson & Deetz 2000). Description of the context, inter-researcher discussion, reference to the literature and reflexive notes, disclosure of singly-held views and feedback response from the CAs on the results and recommendations all contributed to the trustworthiness of the data. In addition the participants were provided with a summary of the results and recommendations.

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<sup>8</sup> Mid point of a two year national (and international) recession.

## RESULTS

In addition to the information presented in Table 1, the interviewees disclosed that businesses were founded between 1915 and 1986, and were all currently companies with two or three owners. Two of the firms had a parent and child within the business ownership and three of the businesses had non-owner family member employees.

The second research objective of this study was to understand and describe SME owners' experiences of BSP development, in particular in relation to professional CA advisor involvement. Owners' personal descriptions of the BSP process uncovered twelve important issues which are discussed in more detail below.

1. **BSP Awareness and Initiative:** Many of the incumbent owners were pro-actively thinking about BSP because of business, personal and family considerations. The CAs did not prompt any of the participants to think specifically about BSP, but they had made their clients aware of the importance of starting their BSP early. Business considerations included the retention of staff members' knowledge to ensure future continuity of operations, the demands of the changing market place and the setting of company long term goals. Personal factors however, were invariably linked to the incumbent's exit from the business. SME owners wanted to ensure sufficient time to enjoy another lifestyle - "*I probably don't really want to be working till seventy or eighty*". This attitude was in contrast to that of the preceding generation, who stayed in ownership well past sixty years; one participant's grandfather and father had worked in the business, and her grandfather worked until he died. Family considerations that prompted attention to BSP centred on the birth of children with the hope that "*one of the children will take it on*".

2. **Informal Plans:** Another commonality amongst the interviewees was their lack of a formal written BSP (Battisti & Massey 2008), as it was perceived that it could affect family sensitivities (it “*would bring the emotional side of things in*”) and because they were confident about performing the BSP steps in their own time. Each participant had taken at least one step towards business succession but their approaches were “*a bit of feel to see how you get on*”.
  
3. **Co-owners’ Individual Plans:** SME co-owners tended to have individual exit plans due to differing future working timeframes. One participant explained that the owners physically took their names out of the business to enhance its continuation regardless of the timing of exit of each owner. Planning can take time away from operations and consequently some owners just had “*not got round to it...just too busy*”.
  
4. **Consideration of BSP Options:** The interview participants had considered a variety of BSP options, including generational succession, selling the business, and employee/manager buy-out. All participants preferred generational succession, wanting the business to “*remain in the family*”, but did observe that there “*is less and less of that happening now*”. Two interviewees with possible family successors remained flexible to enable either non-family succession or alternatively to accommodate training of a family successor. Where an incumbent owner did not have a family successor, the CA advisor became involved in finding a successor for the business. Consequently, two participants considered but rejected the sale of their businesses. The two reasons provided were the potential loss of a good income stream (the owner decided to retain a majority shareholding and not sell) and the potential

loss of current high standards should the business be purchased by a larger corporation that did not “*give the service [that] a family operating, and caring business will*” and might “*run the business down*”. Three participants considered in-house non-family member successors, recognising that they would “*have to groom someone coming underneath*”.

5. **Family Succession:** Another concern was that the successor would have to be the “*right person*”. Finding an acceptable successor was an issue of concern to all participants. The preferred family succession highlighted issues of willingness and gender of the successor. Four participants acknowledged that their children may not return to the family business from their tertiary studies or from overseas. Participants also mentioned a generational attitude change (“*people may not want to stay in the business forever*”) and others felt reservations about recommending the pressures of the job to their offspring or providing automatic entry to potential family successors (they “*still have to perform*” and “*prove their worth for the future*”). Literature suggests a traditional attitude towards male succession and this was highlighted by one participant who stated “*there’s a natural thing to want to carry the name...so there is a bit of bias going towards the male*” and the physical demands of his business suggested to him a male successor. Despite his son being confirmed as the potential successor, the incumbent owner was, however, insistent that his daughters were also given the opportunity and that they were “*happy*” with the succession and their compensation through arrangements of assets.
6. **Non-family Succession:** Where a family successor was not possible, an in-house employee/manager successor was considered. In some cases this meant external

recruitment of knowledgeable and more youthful professional employees with a view to long-term succession planning. This was not without difficulties, ranging from finding knowledgeable staff, need for international recruitment due to small national supply, negative perceptions of provincial life, larger international incomes, and employees subsequently setting up competing businesses. One participant worked with their CA firm to develop scholarship packages to offer to tertiary students who could work for the business upon graduation, but even with these he eventually down-sized his business.

7. **Training of Successors:** All of the participants recognised that sharing of knowledge and responsibilities is one of the prerequisites to a non-problematic succession. Incumbent owners expected to stay semi-involved with the business for a few years to share knowledge and train “*young and inexperienced*” successors and to identify if the young owners are “*coping*”. One firm resolved to empower staff, delegate and share knowledge after experiencing the unexpected absence of a senior manager, and saw the resultant outcome as additionally useful for business succession - “*It really is part of the succession planning to ensure if anybody leaves the business, the business won't be affected after you at all*”.
8. **Departure of Incumbent Owner:** Progressive departure from the business can also be a consideration for the incumbent owners. The ‘baby boomer’ generation<sup>9</sup> appeared to be more prepared to leave their businesses than the older owners<sup>10</sup>. Several participants worked to support the very “*emotional*” and “*personal process*” of retirement for older incumbents and accommodated their older co-owner family members’ desires to remain involved in the business- “*Granddad didn't and Dad*

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<sup>9</sup> “Younger” SME owners aged around 45 years to early 60s in 2008 (Fransden 2009).

<sup>10</sup> “Older” SME owners aged around mid 60s to mid 70s in 2008 (i.e. part of the ‘silent generation’ (Fransden 2009)).

*doesn't see themselves leaving the business*". One participant stated *"I've never seen it as a black and white thing; it's always been a feeling of when you're ready"*. In some cases succession planning was seen to be "difficult" as it required planning for death.

In contrast, two of the younger SME owners took the initiative to move out of their 'hands-on' involvement in their business. One participant wanted to have a change of lifestyle and allow the company to grow under young ownership whilst the other lost some physical abilities due to an accident.

9. **Communication to Stakeholders:** One participant mentioned that an important aspect of succession planning was communication of ownership changes to staff (particularly long-serving members), suppliers and subcontractors.
10. **Technical Issues:** If the business was to be sold or changes were to be made to the shareholding agreement, then the business owner engaged technical experts. Expert valuers were engaged to give a valuation of the firm and CAs were consulted on the "mechanics" of the BSP process, such as the shareholding agreement. The CA advised two participants to keep their shareholding arrangements simple to enable future flexibility.
11. **Implementation of BSP Prior to Owner Departure:** Complete exit from the business was a premature consideration for all of the interviewees. Although half of the participants expressed a desire to retain some form of shareholding, most felt that they had another ten years in the business and intended addressing their BSP more

actively in five years time. However, in the interim period they were implementing the BSP by focussing on “*getting skills out there into the other people that are here*”. Two participants believed that their steps towards their ideal business succession were going favourably, while the other participants believed it was too premature to evaluate.

12. **Benefits of BSP:** Despite the majority of the participants still being in the planning stage, all of the participants could foresee the benefits of BSP to themselves, their family and their business in the future.

These benefits are addressed in the following section, in which the third research objective for this study (to ascertain the usefulness of the BSP and of the advice of the professional CA) is discussed.

Five issues relating to the usefulness of the BSP were highlighted. The benefits concerned plans for a more relaxed lifestyle, reassurance to family members, maintenance of business continuity, and evaluation of the business from another perspective, whilst the difficulties revolved around the sensitivities required for planning for a relation’s death or absence from the family business. Further detail is provided below.

A predominant benefit mentioned by all owners was the perceived change of lifestyle once they exited the business. The BSP allowed them (and their families) to be aware of their age and the demands of their current lifestyle (i.e. making “*huge sacrifices*”), to plan for that change (including recruitment of new staff), to decrease worry and to eagerly anticipate doing “*something different*”. This planning provided family reassurance. In one case, there was “*no pressure [for his family] to come back and run the company, or worry about it in the future*”,



but in another, securing a family successor brought *“peace of mind”* - *“if a business has been in your family for nearly a hundred years it’s good to know there’s a future for it, especially if you want it to remain in your family, which I do”*.

For another owner, his lessened involvement, but retention of ownership in the company has allowed him to see the business continue and remain successful. All of the participants were using BSP to ensure business continuity in the future. Examples were the recruitment of knowledgeable professional staff and accessible funding. One owner also believed that BSP helped him to step aside from his heavy involvement in the business and allow a more dispassionate evaluation of the firm- *“I can get a better overview of everything, out of the company than in it”*.

The difficulties of BSP were mainly due to the softer issues and emotions of succession, particularly with the oldest generation of owners for whom the business was their life. Planning for their death or departure from the business *“is a really emotional thing! It’s a real big issue”*. Younger owners generally had less emotional involvement in the firm and had *“no problem letting go”*, especially as many were aspiring to take on new challenges or were *“moving sideways and not out”* and *“still keeping in touch with the company”*.

But these difficulties were not stopping these SME owners from engaging in, albeit informal, BSP. Three participants mentioned knowledge of unsuccessful successions in firms that lacked BSPs. These businesses *“just vanish from being quite successful companies...that’s why we put in this succession planning...so hopefully it’s a strong company.”*

So where does the CA advisor fit into this process? The interviewees highlighted ways in which CA advisors were extremely useful in the BSP process and these are discussed below.

Most participants were proactive in sourcing business assistance in general, and not only from their CA. Some viewed CAs as their primary business advisors but others went elsewhere for specific advice (e.g. product development, legal, valuation and employment). Participants generally found current CAs more proactive and interactive with business owners than in the past, stating “*there just seems to be more strings to their bow; [they are] more business orientated on a wider scale – it’s good!*” Technology has also increased the regularity of reporting which has enhanced owners’ decision-making.

In relation to BSP, all of the participants found that their CA had raised their awareness of the importance of developing a BSP, particularly as the CAs noticed changes in the aging owners’ responsibilities and were aware of the operating demands on the owners. However, most of the owner interviewees believed their BSP to be primarily developed in-house, but they all felt they “*would ask [for assistance] if they needed it*” from their CA.

The main areas where the CA was deemed to add value were in the technical, financial areas such as availability of business succession options, shareholding changes and agreements, funding, reviewing of business sale documentation, communication with other professionals (e.g. lawyers and valuers), estate planning, setting up family trusts and taxation. One participant stated “*as far as the mechanics of it, ensuring the funding and the whole thing worked, that was certainly the accountant’s input. You couldn’t do it without expertise*”. It appeared that the closer to the point of ownership transfer, the more the CA was involved; for example, advice on shareholding and employment relations was sought by participants who

planned to exit their firm in less than five years. In addition, the owners were eager to learn from the CAs about BSP experience in other SMEs, including that of the CA's own firm. One of the owners received valuable advice about graduate recruitment and scholarships from the experiences of Account Ltd.

The owners also drew attention to some general characteristics of their relationships with their CA advisors, which they found particularly helpful when engaging in BSP. Several of the owners enjoyed a long-term relationship with their CA and saw this as highly valuable for the BSP process. They knew the CA to be reliable and had formed relationships based upon, most importantly, honesty and trust. The one SME owner, who had recently changed to Account Ltd, found that the turnover of staff in his previous CA firm was detrimental to the formation of a long term trusting relationship, and therefore he had, out of necessity, taken the initiative in BSP. Long term relationships allowed for "*joint*" brainstorming and meant that the CA knew the "*company inside-out*". In one case the owner described his CA advisor in the following manner: "*she sorts it all*".

One participant also appreciated the objectivity provided by the CA: "*I treasure the accountant's advice. Apart from anything else it's an objective point of view...it's quite nice to have someone...who knows all the facts and the figures...better than me*". And finally, the professional but personal and friendly relationship with Account Ltd's CA advisors also increased approachability. Owners confidently approached and shared their goals and aspirations with their CAs, even when the relationship had been for less than a year.

However, owners' close relationships with their CA advisors did not extend to CA involvement in family issues. The CA was not included when owners addressed the 'soft'

family issues of BSP, or to play ‘*referee*’ in family meetings, even though these were sometimes challenging. For example, two participants who had older co-owners involved in the business, were delicately and gradually relinquishing their elders of their roles, at a pace at which the elders felt comfortable. This was initiated within the firm with great care being paid to the “*emotional aspects*” as “*some people don’t like being planned for not being here*”. Consideration of family members’ emotions led one participant to state that family businesses’ BSPs have to operate on a “*feel*” basis.

Three other issues were mentioned by the interviewees, which could constitute areas for improvement. One participant believed that the CA only had a limited role in BSP because of a lack of true internal working knowledge of the firm. Two other participants were unaware of the ways in which their CAs could assist them in BSP and that the CAs “*weren’t very forthcoming in offering things*”. And more specifically, another participant, who was very busy on operations, felt that his previous CA (prior firm) did not respond to his need for help in re-structuring his firm’s ownership trusts.

## **DISCUSSION AND RECOMMENDATIONS**

This study has added to the New Zealand evidence of BSP in SME firms (Battisti & Massey 2008), by providing some rich interview data with five SME owners. All participants operated in ‘family firms’ (Carsrud 1994) and had initiated BSP with assistance from a CA advisor from a provincial city firm. Although limited by the small sample size, three main findings are indicated. Firstly, the SME owners had confidently commenced the BSP process, albeit in a semi-formal manner. Secondly, BSP was found to be useful, particularly in planning for change to a “more balanced lifestyle”, and in providing business continuity and

reassurance to families. And finally, the CA was found to be a useful contributor to some facets of the BSP process. These findings are discussed in more detail below.

Battisti & Massey's (2008) New Zealand survey indicated that over half of our nation's SME owners did not have an exit plan, but where they did, it was more likely to be unwritten and informal than formal. This study focussed on firms where the researchers knew that BSP had been initiated prior to the interviews, so no comment can be made about the prevalence of BSP or the incidence of rejection of BSP. However, the interview evidence was very positive in confirming the existence of, not informal plans, but hybrid semi-formal plans. Formality is characterised by recorded procedures which are assured to be regularly applied within the organisation (de Kok & Uhlaner 2001). The five SMEs demonstrated some elements of formal planning, with documented processes (e.g. shareholding agreements, trust structures, taxation and other financial arrangements) evident, and assurance from the incumbent owner that the BSP was being implemented. However, these family firm owners also believed that SMEs were "*not corporations*" which needed strictly formal plans. This was due to the 'soft', relationship-based emotional issues present in family firms (Ibrahim *et al.* 2004), particularly where ownership was shared between close family members. Accordingly, the resultant semi-formal BSPs allowed for the softer 'informalities and uncertainties' of finding a successor, knowledge-sharing and generational needs.

Each SME's BSP was different, concurring with the variety highlighted in prior literature (Smyrnios *et al.* 2000; Ip & Jacobs 2006). In addition, all SME owners were prepared to change and adapt their BSP if necessary in order to retain its relevance and practicality, as advocated by Smyrnios *et al.* (2000) and Bennett (2006).

There was a universal preference among the incumbent owners for traditional succession in which their businesses were passed onto another family member (Ip & Jacobs 2006; Battisti & Massey 2008). However, if there was no available family successor, and many owners were realistic about that possibility, then management or employee buy-in was the next most attractive option. Pride in a family's achievement, a sense of stewardship and sentimental attachment (Gascoigne 2002), as well as a desire to continue the standard of service provided by a family firm, prevented owners from selling to larger corporations, contrary to the beliefs of Wallace & Bellingham (2008).

In order to effectively transfer ownership (Smyrnios *et al.* 2000; Wang *et al.* 2004), all participants had begun or planned a grooming strategy for the successor. In most cases this constituted parallel training of the successor alongside the incumbent (Sambrook 2005) and knowledge and responsibilities being shared (Malinen 2004; Sambrook 2005). The oldest owners were also being supported by their younger co-owners (Ogg & Renaut 2006) to gradually reduce their participation in the firm but also to share their tremendous knowledge, be valued and to maintain attachment with the firm. In contrast, these younger co-owners were realistic, and even keen, about reducing the firms' reliance on themselves (Kim & DeVaney 2003), in order to make lifestyle changes to another business project, work or sport (Leach *et al.* 2008). They were, however, still working to ensure the continuity of the business and the best possible return on the business (Reilly *et al.* 2008).

Despite any encountered difficulties, there was overwhelming agreement that BSP was useful. It allowed visions for lifestyle changes to be realised, it reassured families and maintained business continuity. Stories of businesses that had not successfully survived succession due to a lack of planning featured in the interviews. Owners were aware of the

possibility of business failure if BSP was not undertaken (Wang *et al.* 2004), and were therefore prepared to make the long-term commitment to its implementation. The transition of a business from one generation to the next is argued to be the most critical issue confronting family firms (Morris *et al.*, 1997), as family firms with their more emotion-based orientation (Battisti & Massey 2008) have the potential for substantial conflict (family-founder-business) in the BSP process (Morris *et al.* 1997). In this study, those participants who shared ownership with another close family member did find the BSP process more difficult than those who did not have co-owner relations, due to the stronger emotional ties; however no serious instances of dysfunction were evident or revealed.

This study highlighted three important considerations for the accountancy profession. Firstly, assistance from a CA was crucial to a SME owner's successful business succession. Secondly, that assistance was most appreciated when it was of a technical, financial nature, and not concerned with the 'soft' issues of BSP. And thirdly, a SME owner's strong and usually long-term relationship with his/her CA provided a firm basis for the BSP process.

Lewis *et al* (2007), Battisti & Massey (2008) and Harris & Kirkwood (2006) reported that accountants were the most frequently consulted and most useful and trusted business advisors of SME owners, including for BSP advice. Accountants' usefulness was confirmed in this study. Although they also consulted family members (Battisti & Massey 2008) and other professionals, and developed much of their BSPs themselves due to company knowledge and family relationships, the interviewed SME owners believed that they could not develop their BSPs without their CAs' expertise.

The critical assistance from CAs that was most appreciated was concerned with the ‘hard’ technical issues of the process (“the mechanics”), such as shareholding arrangements and taxation rather than the ‘soft’ issues, such as finding a family successor and assisting older co-owners to decrease involvement in the firm. CA training, professional accreditation, ethical guidelines and continuing professional development (New Zealand Institute of Chartered Accountants 2007) ensures that this technical advice by CAs is at a competent level. On the other hand, CAs are not usually trained to deal with complex and emotional problems experienced by families (Smyrnios *et al.* 2000) and this makes it difficult for CAs to completely address the BSP process (Harris & Kirkwood 2006). Even though it is argued that SME owners require advice on both ‘soft’ and ‘hard’ issues (Ramsden & Bennett 2005), New Zealand SME owners preferred to manage the ‘soft’ issues of BSP themselves. However, awareness of the dual nature of BSP issues could lead CAs to include professional help such as family counsellors or mediators in their contact list of experts who could assist in the BSP process.

Nevertheless, CAs’ relationships with their clients did have a personal dimension. Private and sensitive information is often disclosed by clients, and as professionals, CAs are trusted to keep that information confidential (Seal & Vincent-Jones 1997). This sense of trust was found to be enhanced by a long-standing relationship between the CA advisor and the client (Perry *et al.* 2006). Other important and more personal characteristics of a successful advisory relationship were approachability (relaxed and friendly) and accessibility (Perry *et al.* 2006), honesty, objectivity, follow-up, and relationships with other experts such as lawyers and valuers. These highlighted attributes concurred with the majority of the thirteen attributes that Chaston & Baker (1998) believed made an advisor useful. That is, the CAs had



business acumen, had a close relationship and regular contact with the client, were easily accessible, competent, open, trustworthy, and committed.

To address the fourth objective of the study, recommendations to the accountancy profession on providing BSP advice were developed. These recommendations were based on the findings of the study and informed by relevant academic and professional literature, and were presented to the CA advisors in Account Ltd for comment. The feedback process was in the main confirmatory and resulted in some slight modifications only. The four resultant recommendations to Chartered Accountants are:

1. CAs should be proactive to ensure clients plan for business succession. CA advisors can stimulate SME owners to consider BSP by asking questions about older members' involvement in the business, future plans etc.
2. CAs should then initiate discussion of the BSP process and instigation of BSP planning, i.e.
  - a. Initially provide a generic checklist of the BSP process to the clients assuming that clients have little or no knowledge of the process and explaining how the CAs can assist (i.e. mainly the technical 'mechanics').
  - b. Secondly, discuss the clients' preferred BSP options with them and develop a (semi-formal) plan. CA advisors could develop a specific checklist of BSP steps for that client, including such steps as ensuring the incumbent's knowledge is shared throughout the business, communication to stakeholders and that young staff members are being recruited and trained.
3. CAs and their clients should recognise that a "good" BSP process is based on a team effort. The combination of opinions improves accuracy (Yaniv 2004), so CAs should

be proactive in recommending other experts who would be useful in the BSP process (e.g. a family counsellor, lawyer or valuer) or relevant courses or publications. Also, the experience of the CA's own firm's experience with BSP can provide illustrative examples.

4. CAs should attempt to establish long-term client relationships based on trust, honesty and knowledge of the "personal characteristics" of the clients and their businesses. Family firms tend to value a professional, but relaxed and friendly relationship. If, however, a CA advisor change was unavoidable, a gradual and careful transition to the new advisor should be undertaken if at all possible.

In conclusion, it is desirable that additional research be undertaken in the future to verify this study's results. Similar qualitative research should focus on more prolonged engagement with larger and more diverse samples of SME owners to provide confirmation, extra insights or even some level of generalisability (Lincoln & Guba 1985). Revisiting the currently surveyed sample in ten years time (at/close to time of owner exit) could also provide some retrospective comments on the usefulness of the BSPs and the CAs' advice to the SME owners. And finally, in order to improve the current level of business succession planning in New Zealand, it is important that the recommendations of this study be communicated to and debated by CAs (e.g. Hayes Knight 2006). It is hoped that these recommendations will be viewed positively and will lead to modification and improvement of CA BSP advice.

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## TABLES

**Table 1: Description of the five participating SMEs**

| Characteristic                 | Categories              | Number of SMEs per Category |
|--------------------------------|-------------------------|-----------------------------|
| <b>Firm size</b>               | Micro-enterprise        | 1                           |
|                                | Small enterprise        | 3                           |
|                                | Medium enterprise       | 1                           |
|                                |                         |                             |
| <b>Business type</b>           | Service                 | 3                           |
|                                | Primary goods producer  | 2                           |
|                                |                         |                             |
| <b>Annual turnover</b>         | < NZ\$1 million         | 1                           |
|                                | NZ\$1-5 million         | 2                           |
|                                | NZ\$6-10 million        | 1                           |
|                                | > NZ\$20 million        | 1                           |
|                                |                         |                             |
| <b>Generation in ownership</b> | Second                  | 3                           |
|                                | Third                   | 2                           |
|                                |                         |                             |
| <b>Stage of BSP</b>            | BSP has been considered | 5                           |
|                                | BSP process has begun   | 4                           |
|                                |                         |                             |
| <b>Period with current CA</b>  | < 1 year                | 2                           |
|                                | 2 – 3 years             | 1                           |
|                                | 4 – 9 years             | 0                           |
|                                | 10 – 20 years           | 1                           |
|                                | > 20 years              | 1                           |

## APPENDICES

### Appendix 1: Interview Guidance Questions

1. Could you please briefly tell me about your business, with regards to an approximate range of your annual turnover, the number of employees, the role you play and if there is a history of generational ownership?
2. Can you please tell me about the timetable of your BSP, with particular regard to when, and what approximate age bracket you were in when you developed the plan?
3. What prompted you to start the process of getting a BSP?
4. Could you please think back and describe the process that you went through in order to develop your BSP? I am particularly interested in the steps that you went through, the problems and pitfalls, and the CA's involvement in the process, so I wondered if you could please address those as we go through the stages.

#### Prompts

- Was the CA advice useful in this step?
  - What could be done better?
  - Did you get all the information that you needed?
  - Could s/he have done something different that might have assisted you more at this point?
  - Was the CA "too involved"?
  - Did you talk it over with other people/family etc?
5. How are you finding the implementation of your BSP?
  6. What kind of relationship do you have with your CA advisor, in particular how long have you been with him/her?
  7. What are the benefits to you and your business of having a BSP in place?
  8. Are there any other comments you would like to add about your experience of developing a BSP with the CA's assistance?