



**Goodison Group**  
in Scotland

INFLUENCING LEARNING



Scotland's  
Futures Forum

# “Sustainability: the challenge facing Scotland’s SMEs and family businesses”

**Summary Report on two stakeholder events:**

Edinburgh, 25<sup>th</sup> April 2014

Inverness, 9<sup>th</sup> May 2014

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## 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. Reflections from both events were captured on film. Please click on the link to view <https://vimeo.com/98730546>

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.

