CPA

Practice **Advisor**

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A new survey of family-owned businesses finds an interesting statistic with important ramifications for the future of American businesses and the advisors who work with them: There's waning interest in passing the ownership baton to other family members.

In fact, among family-owned firms that foresee an ownership change within the next five years, only about half plan to pass the business on to the next generation, the smallest share since 2010 and down from 74 percent of companies that said this two years ago, according to the survey by PwC conducted in late 2016.

And an even smaller share of the firms expecting a change within five years say the next generation will both own and run the business (41 percent vs. 48 percent two years ago), PwC said in its report, "The missing middle: Bridging the strategy gap in US family firms." Among the 160 family firms surveyed, relatively few said they plan for the family to continue to own the business while someone else runs it.

"In this latest survey, far more businesses told us that, instead, they'll be seeking buyers outside the family within the next several years — nearly one-third of respondents, compared with 19% two years ago," PwC said.

PwC said it's possible the share of businesses that plan to keep things in the family may increase from the most recent survey, which was conducted against the backdrop of uncertainty surrounding the election and renewed economic jitters. Indeed, among firms with a longer timeline for an ownership change (beyond five

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Another response in the survey provides additional evidence that fewer firms will retain family ownership. Nearly one-third of family firms have no succession plan at all, and only 23 percent have a plan that's been put in writing and communicated to key firm stakeholders, an even lower share than the 27 percent in the 2014 survey.

"Perhaps this lack of strategic planning ... reflects the fact that more family firms are now contemplating a sale to nonfamily buyers in the next five years" than two years ago, PwC said.

However, business advisors know that even if a firm is considering an eventual sale to an outsider, it's important to plan and work toward that plan in the years well before an ownership change. Many common factors can influence the value of the business and its suitability to transfer ownership – either to a family member or to an outsider. For example, businesses that haven't begun to document company procedures or to even have professionally prepared financial statements will find it more difficult to transition the business.

Accountants, valuation professionals and others who advise businesses can take steps during routine communications with clients to remind them of the importance of planning for the future. As Warren Sheydwasser, president of SuccessionMatching.com has said, communicating your knowledge and availability to help can go a long way toward expanding fee revenue.

Exit planning can and should begin years in advance of a change in ownership, and advisors play a critical role in the successful transfer, especially if they help owners address growth potential, risks, transfer of responsibilities and cash flow generation.

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