Balancing the personal with the professional

How to bridge the gap in a family business

Most family business leaders say their key advantage over non-family-owned firms is their long-term approach and their focus on building trust and personal relationships. So why is it that only 12% of family businesses make it to the third generation and only 1% make it beyond the fifth generation?

These findings come from PwC's 2014 Global Next Generation Survey, *Bridging the gap: Handing over the family business to the next generation* and they reflect a similar reality playing out in Canada. Baby boomer parents and their millennial children don't always communicate their wants and expectations, leading to misunderstandings that are putting family businesses at risk.

For example, this year's findings reveal that the next generation wants to do something significant with the business (86%) and have big ideas for change and growth (80%), but only 35% believe they'll have the opportunity to run the family business one day. That uncertainty could be tied to the lack of confidence parents/owners have in the ability of their children to take over and their unwillingness to professionalize the family business by introducing professional management and better governance around finance—a move many of the next generation see as necessary to scale the business.

This transition issue isn't new, but it's one that Canadian family business leaders need to get a handle on if they want to continue to pass on their established legacy. Part of the problem is the concern current business owners have about the next generation's capacity to understand the current global market, financial structures and what it means to build and grow a business—which is very different from

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running it. It takes 10 to 15 years of working in the business and experiencing different economic cycles to gain that understanding. At the same time, the outgoing generation doesn't want to hand over too much control to professional management because they're unsure how to monitor and measure the value of their skillset. Many times, the owner entrepreneur may not be realistic about the stage the business is in and doesn't realize that it has moved well beyond the early entrepreneurial stage and requires a new approach, strategy, systems and processes.

The question becomes how to relinquish control in a way that sustains growth and keeps the business in the family. On the other side of the equation is the incoming generation who want to grow the business differently but don't want family relationships to suffer in the process, making them keen to bring in professional management.

Often, when it comes to transitioning to the third generation, there isn't enough strategic agreement on growth and legacy. Part of the problem is that there isn't enough discussion between the second and third generation around what the wealth generated by the business is for. Is there going to be a family bank? Is there going to be a legacy dividend policy? Often, these issues aren't agreed upon nor are they regularly revisited against the growth strategy.

The good news is that Canadian family businesses can learn from their counterparts in Europe, the Middle East and Asia who have the benefit of longer histories and experience transitioning to multi-generations. There are benchmarks and best practices that can be adopted here in Canada to help smooth succession from one generation to the next.

For example, many fifth and sixth generation family businesses have pruned the family ownership structure to one family line that will continue the legacy. This will involve buying out the other family lines typically during the transition periods between the third and fourth generations—which can cause conflict and fractions—but paves the way for long-term success.

Key lessons learned:

Communication is key—start early and continue the dialogue. After startup, succession is the most critical time of survival for a family business.

The sooner families start planning for succession and involving their children, the better. Even from a young age, children should be aware of the family business, what you do and what you value. This isn't about committing children to continuing the legacy, it's about building awareness and as they get older, presenting different options for involvement. This is an ongoing conversation.

Create the structures that will allow you to have the hard conversations. This may come in the form of a family council or family/owners' forums where everyone can have their say about leadership and how best to transition the business. Family businesses have to manage personal as well as professional relationships, which presents the possibility of conflict.

According to this year's findings, 22% of the next generation are concerned about working with family members and understanding the family dynamic. Creating the opportunity to share those concerns and expectations in a structured way, on a regular basis, with proper governance and a clear understanding of how decisions are made is critical to managing the dynamic in a positive way. This can also help to reduce conflict.

Succession takes time and a plan. Many family businesses require children to have a post-secondary degree and experience working in management positions at other companies before they move into leadership positions in the family business. Successful multi-generational family businesses have established criteria the next generation must satisfy. This helps build credibility —a key aspect of a successful transition to the next generation. In fact, 59% of this year's respondents consider gaining the respect of their coworkers as one of their biggest challenges. A gradual increasing of responsibility is key in order to help transition key stakeholder relationships.

The fact is a poorly executed transition can significantly impact the bottom line in a negative way. Succession planning has to be a business imperative. It is a process but too often isn't contemplated early enough to allow you to assess the best options to move forward. Succession can take many forms, but you have to give yourself the time to understand which option is best for your family and your business.

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