Ownership transition strategies: 4 factors to bridge the generation gap

If there is a single constant in the world of business, it's change.

Savvy and successful business owners know that when things get a little too comfortable, it's often a signal that a big change is coming, and the time to take action has arrived. Change is thrust upon us from external circumstances (like, say … a global pandemic), and internal circumstances (an instinct to expand into a new market or finally step into retirement). But regardless of how it arrives, change always brings the promise of opportunity along with it.

Perhaps one of the biggest changes that a family business will face is the transition of ownership from one generation to the next. It's a huge step, and one that requires a great deal of planning and strategic consideration well in advance of the actual exchange.

The strategy for the handover must be developed in accordance with the owner and company's specific needs. Family businesses are widely believed to be the backbone of the Canadian economy, producing 90% of the jobs created by small and mid-sized companies, and accounting for 35% of the country's real GDP[1]. And though they are diverse, family businesses share a number of common qualities that must be considered in crafting an effective succession plan or exit strategy.

Finding common ground

Zeifmans is a family business, now in our second and third generation. Having undergone our own transition, we've learned how to balance the needs of the older generation while making room for the innovation of the younger. We understand firsthand how the interaction of older and newer ideas can influence a transition, and in some cases cause tension to arise.

The team at Zeifmans is skilled at developing exit strategies and succession plans that meet the needs of both generations. Both parties need to have confidence in the future of the business prior to the company exchanging ownership, and the key to achieving this confidence lies in maintaining focus and attention on a number of critical priorities. Let's take a closer look at the factors we consider when developing comprehensive plans to support the future of our family business clients.

1 Family dynamics

Ensure business strategy remains in alignment with family values, vision, and goals

Family businesses face the unique challenge of balancing the specific family values with business strategy. In particular, we see this issue surface very clearly when a transition is approaching. Different generations will share many essential values, but may differ on how they believe those values should be expressed.

For example, family businesses tend to be somewhat more risk averse than their non-family competitors. This can be an advantage (since actions like acquisitions tend to be more carefully vetted and chosen), but can also be a challenge (as when a potential opportunity is avoided for fear of taking a risk). The younger generation tends to be more risk-positive, willing to step into new markets and adopt new technologies. The older generation may believe that a new technological advancement is unnecessary, or is too much of an investment. Both generations share a value of "expansion" and "business growth", but the ways in which they would prefer to play out this value differs.

Decision making processes need to be formalized to ensure that family members understand how to voice their opinions and give constructive feedback. When it comes to developing a succession plan, communication should be open, clear, and consistent to make sure that everyone understands the plan moving forward.

Family and personal assets need to be kept separate from the family business. Further, family businesses should plan for family events such as births, marriages, divorces, and unfortunately deaths. Though these life events obviously take place within every organization, within a family business they have the potential to affect a large percentage of the employees and thus need to be factored in when making decisions about next steps for the family business.

2 Strategic planning

Review the competitive landscape and assess new market opportunities

As family businesses become increasingly exposed to global best practices and competition in international markets, the need to adapt strategy will arise. As industries are transformed by new technologies, and even phenomena like the COVID-19 pandemic, the organizations that survive will be those who are agile enough to respond to change. Given the nature of a family business, they are generally a step ahead with adapting to change, as their leader(s) can avoid internal red tape.

In general, the younger generation is eager to make strategic changes when they take the reins. And while the prospect of change may be difficult for the older generation, it's important to remember that often these changes do not affect the overall long-term goals, but rather how those goals are achieved.

Imagine for a moment that a family business has succeeded for many years within a local or domestic market. The older generation has grown the business by gaining a thorough understanding of the current market, and delivering on that market's specific expectations. As the company begins to see some of their sales lost to international businesses through online sales, the strategy needs to be adjusted to accommodate new consumer expectations. The younger generation may want to expand the strategy to adopt best practices from throughout the industry, and rightfully so. But the older generation may have a desire to stick to "what works" or the strategy that has delivered the success so far.

In navigating this issue during a transition, communication is key. Both generations need to have respect for each other's positions. Attention needs to be paid to the tenets that achieved the organization's success to date, while also keeping an eye on upcoming trends and the adoption of new market standards. It is important during the transition of the business, from one generation to the next, for the younger generation to lean on the older generation for guidance, as they have the experience to help navigate change.

3 Innovation

Rezoning occurs during the planning stage, which means balancing innovation and proven success

Regardless of generational differences, family businesses tend to be agile. Given that management and ownership tend to overlap, decisions can be made quickly. Further, most family businesses are built on a foundation of entrepreneurship. Successful entrepreneurs are those who are willing to create innovative solutions to fill a hole in the market, and thus, innovation is undeniably a crucial part of the fabric of most family businesses.

Keep in mind: Innovation extends beyond invention. Innovation is an ongoing, rapid response to change in the marketplace. We often see this extend into investment in R&D so that the company offering continues to grow in a sustainable manner into the future. Certainly, in unprecedented times like now, the ability to respond to new information, and anticipate the needs of consumers moving forward (for example, increasing online shopping options) will keep a company afloat.

In crafting an effective succession plan, the older and younger generations will need to agree on a certain level of future innovation. This may include an increased online presence, expanding into global markets, and cross-border operations extending across Canada, into the U.S. or overseas.

4 Financing

Explore equity and debt finance options

Though there exists a common myth that family businesses are self-financing, the data shows that the majority of family businesses rely on external finance sources such as banks, incentives, grants and private equity. And while banks will undoubtedly remain the main source of financing moving forward, their increasingly strict lending criteria are causing family businesses to explore further options.

Younger generations may be interested in looking into financing through an Initial Public Offering (IPO), or crowdfunding in order to fund the innovative ventures they have planned, create liquidity, diversify their holdings or buy out family members. Here, it is important to remain focused on financial stability and predictability when choosing a financing option. The younger generation should reassure the older generation that these interim financing methods will be utilized in order to carry out the existing long-term goals.

Working with an expert firm like Zeifmans can assist in ensuring success in obtaining outside financing, in completing an IPO, or in accessing grants and incentives that are available to your organization through government programs.

Successions and exits

As it becomes clear that a family business is headed towards a transition, the rule of thumb is to begin planning as early as possible. Even in situations where the transition seems straight forward, attention should be paid to creating a formal plan and making sure that everyone on the team understands what the process will look like. Determine the method of transfer, and establish a clear timeline within which the transition will take place. Share this plan so that everyone who is affected will be aware prior to the shift taking place.

Well-developed plans that are clearly communicated will ensure that the atmospheres in the family and the organization remain calm, reducing the potential for unexpected conflicts and disruption to operations. In many cases, members of the older generation continue to work in the business after the transition occurs. This can create undue confusion for employees when the lines of reporting are unclear.

To facilitate a successful transition, your organization will need to establish a team of professional advisors. This may include your CPA / financial advisor, an attorney, bankers, and insurance specialists. Be sure to choose a team that has the confidence of the key family members and an understanding of the intricacies of family business dynamics. Their job will be to support the older generation in exiting with confidence, and the younger generation in leading responsibly.

Zeifmans is a family business. Not only have we developed succession plans for countless clients over the last 60 years, but we've successfully executed our own. It's this difference that sets us apart, enabling us to add unique value as our family business clients embark on their own transitions, prepared for unprecedented success well into the future, knowing that we understand the issues they will face through that transition.

Is a family business transition in your future? Click here to download our family business infographic, or reach out to our team today to start the conversation.

To learn more, contact our team today at 416.256.4000, or send us an email at info@zeifmans.ca.

Sources:
[1] Family Enterprise Xchange Foundation, "Family enterprise matters", https://family-enterprise-xchange.com/res/pub/docs/ResearchReports/FEX_2019_Report_Family_Enterprise_Matters.pdf

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