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What to do when the kids don't want the company

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Contrary to historic trends, family business owners are no longer automatically passing the torch to the next generation. They want a nice return for all their years of hard work, and they are contemplating succession in ways that differ from past generations.

Mike McCarron, one of the founding partners of MSM Transportation, which was sold to Wheels Group, has seen this happening in his industry. "The trucking business is fragmented and heavily populated with family-owned businesses running a good book of business with loyal customers they have served for years.

"The next generation is able to go to university and get a job with predictable revenues and hours of work. They have seen the grind their parents have experienced and are not keen to take over. Secondly, there are more financially liquid purchase options available to family businesses than even 10 years ago. M&A (mergers and acquisitions) is an attractive opportunity."

Several other factors are changing the succession landscape:

Stress

The past five years have been a strain on many companies. Business owners are familiar with those "4 a.m. moments" when running a company collides with the responsibilities of making payroll. They do not want their children to experience that level of pressure. And the next generation may have observed this lifestyle and have been turned off by the level of accountability.

Business education

Family business owners are taking the time to learn about succession and they are discovering that the old way of handing the keys to the next generation is no longer the only path available.

Renting expertise

Sophisticated sales processes run by experts who used to be affordable only to the largest businesses are now accessible to a wider range of companies. Many family stakeholders are bringing in financial advisers to initially develop reasonable expectations on what might be possible, and to then implement the plan.

The financial adviser's recommendations also tend to diffuse the emotional baggage that can surface while selling a family business.

Next generation wants out

The next generation may be daunted by potential sale prices. Raising financing to fund the purchases of family businesses at market prices can be very challenging. Increasingly, the second generation is preferring to take a pass. The owner of an 80-year-old company points out that only 2 per cent of family businesses get passed to the fourth generation, and he is not pressuring his own family to take over the business because they are enjoying their own career choices.

Upsetting the organization

Family business shareholders are far more aware of the impact on employees within the business when passing the leadership to a family member. Employees are impacted by family members being automatically hired. If there is a position open, it may be best to use a professional search firm to find the right candidate. Family members can apply, and if they get through the rigour of a proper process and they are identified as top candidates, only then would it be acceptable to bring them in.

Predictable cash payment

By accessing more potential buyers from outside the usual list of competitors or known buyers, family business owners can be certain they are receiving fair value and are more likely to get a cash deal. In comparison, a retirement income stream that relies on the fortunes of the family business managed by the next generation carries more risk.

Sale price conflict

The aging baby boomers want to get maximum value for their family businesses, and the drive for optimum sale prices is at odds with the next generation, who will be pushing for the lowest price possible. This tension can irreparably damage family relationships.

Jacoline Loewen is a director at Crosbie, which focuses on succession advice for family businesses and closely held small to medium-sized enterprises. Crosbie develops customized strategies, particularly in relation to M&A, financing and corporate strategy matters. Ms. Loewen is also the author of Money Magnet: How to Attract Investors to Your Business. You can follow her on @jacolineloewen and @crosbiecompany.