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PASSING THE TORCH

How do you pass the torch in a family business without letting the flame die out? As the great wealth transfer unfolds, many families face the challenges of preserving their business legacy. David Simpson, an expert in family business dynamics and lecturer at the Richard Ivey School of Business, outlines three crucial questions every family must address to navigate a successful business transition.

KEY POINTS

- Your family needs to speak the same language.
- The parent-child relationship in a business differs from that within a family.
- Sharing personal goals is a must.

David Simpson recognizes that transitioning a family business comes with its own set of difficult challenges. With firsthand experience working alongside his brother in their own family business, and through his work with many of Canada's leading family enterprises, Simpson has gained deep insights into the unique complexities these businesses face. He shares his expertise with future entrepreneurs as a lecturer in the MBA program at the Richard Ivey School of Business.

According to Family Enterprise Canada, over 60% of family-owned businesses are expected to change ownership within the next decade. Simpson acknowledges the distinct challenges these businesses face, particularly during this unprecedented period of wealth and business ownership transfer. He emphasizes that the most difficult aspect of a successful transition comes down to answering three critical questions—questions that, as he puts it, "have nothing to do with the business itself, but will challenge every family business."

QUESTION 1: DOES YOUR FAMILY SPEAK THE SAME LANGUAGE?

A successful transition depends on family members sharing a common frame of reference. Even simple terms like "soon" or "long term" can be interpreted differently, leading to misunderstandings. For instance, when a daughter proposes hosting a philanthropy event and the founder responds with, "We'll do it later," he might mean next year, while she interprets it as next month. To prevent these kinds of conflicts, it's essential for families to meet regularly to establish clear communication and shared expectations. This proactive approach helps ensure that misunderstandings do not negatively impact not only the family, but also staff, customers, and other stakeholders.

QUESTION 2: ARE THE CHILDREN DEPENDENT ON THE BUSINESS?

As children grow up, they naturally depend on their parents. But the addition of a family business can complicate emotional dynamics for adult children. They must reconcile working for their parents while pursuing their own goals and ambitions within the family enterprise. It's also important for adult children to recognize that if their skills do not align with the needs of the business, their livelihood may not come from the family company. As David Bork, author and family business adviser, wisely stated, "The purpose of family is to raise responsible adults who have high self-esteem and can function independently in the world—acceptance is unconditional." Conversely, he states that the purpose of business is to generate profits. This dynamic—striking a balance between unconditional love and the uncompromising demands of business—must be openly discussed to ensure a smooth transition.

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QUESTION #3: HAVE YOU DISCUSSED PERSONAL GOALS WITHIN THE FAMILY?

A critical part of succession planning is ensuring that the next generation's goals align with the founder's vision. Tensions can arise when the founder's perspective clashes with the ambitions of younger family members. For example, the next generation may want to expand the business's marketing efforts through digital channels like Google Ads, Facebook, or X (formerly Twitter). If the founder resists by saying, "I don't want to be on TikTok," and shuts down the idea, it can stifle growth. To ensure a successful transition, the founder must give the next generation full autonomy to lead and take the business in new directions. Great families embrace innovation while continuing to honour the values of the founding entrepreneurs.

A FINAL THOUGHT

Clear communication, alignment of personal goals, and empowering the next generation to take the lead are crucial for success. The sooner families incorporate these elements into their succession planning, the more likely they are to achieve a successful transition. B

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ABOUT THE AUTHOR

Jacoline has been educated in five different countries, with over 25 years in the finance industry. She joined Burgundy with a background in wealth management and corporate finance. Jacoline firmly believes in a holistic approach to investments and was naturally drawn to Burgundy's client-centric philosophy. In addition to her dedication to client service, Jacoline actively contributes to the finance community, holding board positions and advocating for financial advice and education through her published works. In her spare time, Jacoline loves to paint Canadian landscapes, visit art galleries, read, and spend time in nature.

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