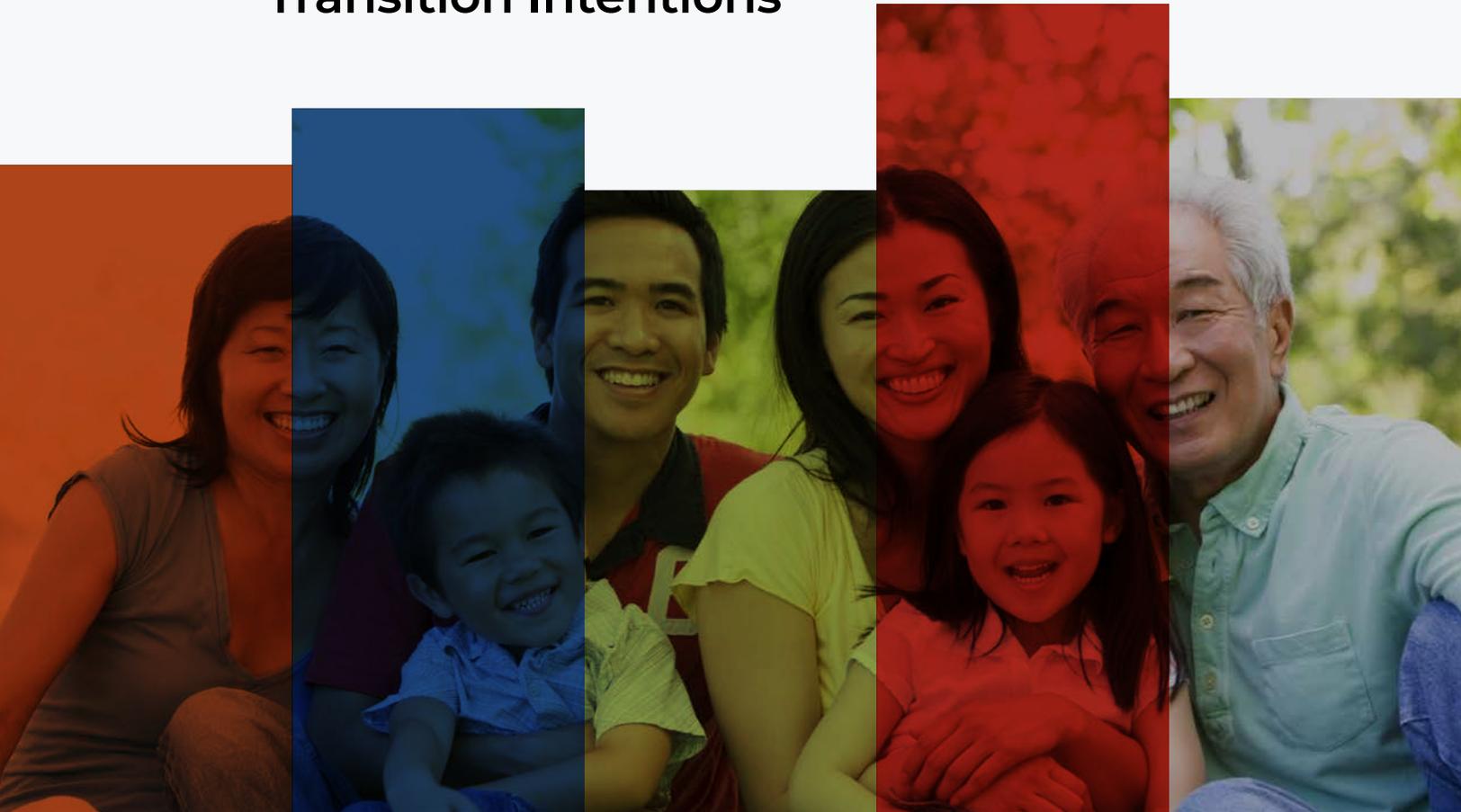




FAMILY
ENTERPRISE
FOUNDATION

READY, WILLING AND INTERESTED – OR NOT?

Canadian Family Business
Transition Intentions





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ABOUT FAMILY ENTERPRISE FOUNDATION

Family Enterprise Foundation (FEF) is the charitable foundation of Family Enterprise Canada. As the unified voice of family enterprise, FEF focuses on developing educational resources, conducting research, building a strong connected ecosystem and promoting the success and sustainability of entrepreneurial families and their enterprises, to ensure intergenerational longevity.

To learn more, please visit FamilyEnterpriseFoundation.org.

Our research into continuity planning and transition intentions is supported by KPMG Enterprise and KPMG Family Office. We thank them for their ongoing support of family enterprise and business owners in Canada!

KPMG
Enterprise



“ I think the common vision between generations is the same, but how we get there might be completely different . ”

—Brandt Channing Louie, Chairman, London Drugs Ltd.

Introduction

As Canada’s family-owned businesses look to finally turn the page on a global health crisis, a new era of urgency is looming in which many thousands of enterprising families expect to relinquish ownership to younger family members or outsiders in the next decade. One important question that was explored in our survey: Is the next generation ready? Many possess enviable skills, business acumen and are passionate. Yet, according to the survey results, there is uncertainty among a significant number of current owners as to how to proceed. The consequences of their actions will reshape Canada’s family enterprise landscape for years to come.

This report represents the first phase of a longer study of transition intentions. Next step will be to get the NextGen perspective to paint a more fulsome picture of the issues.

KEY INSIGHTS

The clock is ticking. In the next decade, tens of thousands of family businesses will transfer to the next generation, if the more than half of owners stay true to their intentions.

Is blood thicker than water? Maybe not, as more than one in three owners expect to transition their business into the hands of outsiders.

The senior generation thinks the next generation is not ready to take over. True or just typical parent-child dynamics? Concerns are strongest in families who hope, or are planning, to transition ownership and management within the family.

The Clock Is Ticking!

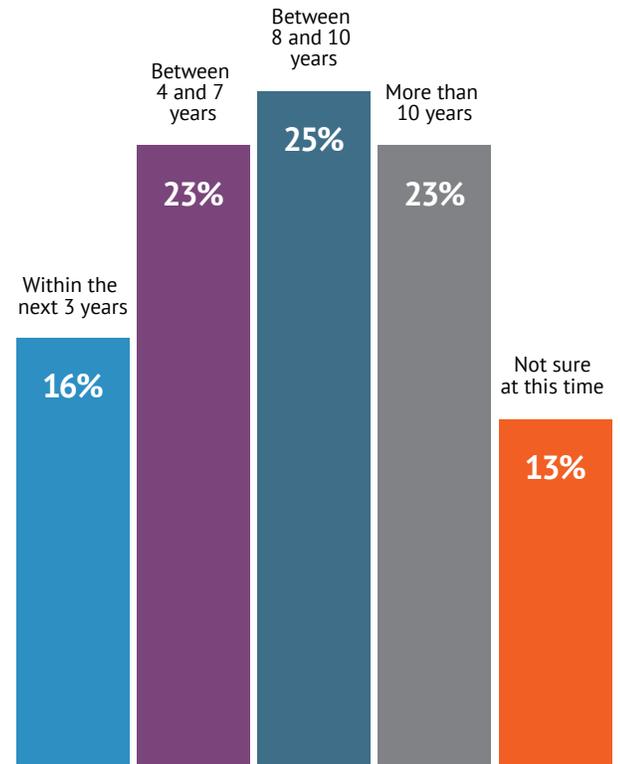
Ready or not, transfers within Canada's family businesses are coming very soon. **Ownership of more than 60% of family enterprises will be changing hands within the next decade.** Within an even shorter span – seven years – close to 40% of next gens will take control of their family enterprises.

A high volume of businesses will change hands in the next ten years, yet just 47% of current owners expect to see ownership stay fully within the family.

Is timing playing a more prominent role than other factors in pushing owners to relinquish control outside the family?

This will be a period of urgency, in which family members clarify their intentions and discussion intensifies around next gens' aspirations, ideas, skills and interest levels. Where future family ownership may be in doubt, rekindling the entrepreneurial spirit in the next generation can bolster longevity.

EXPECTED DATE TO TRANSFER FAMILY BUSINESS TO THE NEXT GENERATION



WE ASKED THE EXPERTS.

Our designated Family Enterprise Advisors (FEAs) are clear: There are more options available to families than they realize. Families should:

- 1 Explore the reasons** for wanting to keep ownership in the family. Consider all the options. Engage in a family conversation around the views of ownership and on the transition of wealth.
- 2 Encourage conversations with next gens.** What are their perspectives? Engage with the rising generation family members, individually. Get to know their level of interest in transition from a management and business ownership standpoint.
- 3 Build a shared vision.** Do you want to be an owner? What does ownership mean to you? What are the responsibilities and rewards of ownership? What skills are important to be an owner?

“ Succession is not an event, it is a process. ”

–Philippe de Gaspé Beaubien,
Co-Chair, de Gaspé Beaubien
Foundation

Transitions: Family In or Family Out?

Next generation transitions will ramp up quickly and in high numbers over the next decade. How might that play out? **Just over half (52%) of families have earmarked family members as future owners when the time comes to transition.** Within that segment, a small fraction (5%) intends to introduce non-family executive leaders. However, **come transition time, over a third (36%) of families intend to turn ownership over to non-family members,** many citing lack of interest and inexperience among family members.

While 58% of family businesses surveyed are wholly owned by families, **“having someone within the family take over the business” is cited by 77% as important** – a sentiment potentially at odds with their intentions come transition time.

“ **Opportunities outside of the family firm are more appealing with less accountability to the family. The responsibility for continuing the family legacy is onerous.** ”

– Susan St Amand,
Founder and President,
Sirius Financial Services

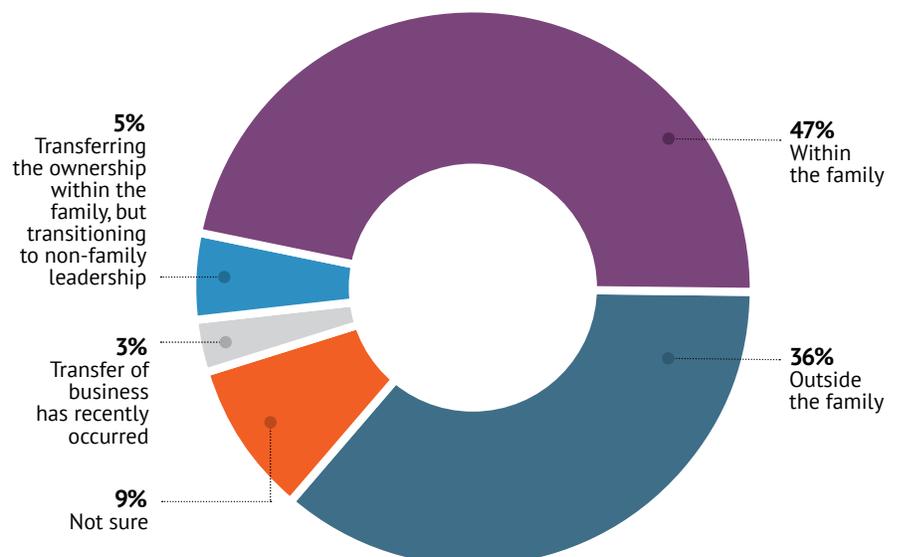
Most Canadian family business owners want to keep their business in the family. Undeniably though, there is a significant number of leaders who are not opposed to ownership by non-family members come transition time. Why? Some owners cite a lack of interest among their progeny. Perception or reality? The rising generation and current owners must pursue more open discussions regarding interest and intentions and commit to exploring all options and opportunities available.

FAMILY INSIGHTS

Having a family business can be a blessing and a burden: a blessing if you're inheriting a business that's engaging and relevant, a burden if you're not interested or have no passion for it.

Perhaps the perceived lack of interest or readiness in next gens is causing senior gens to lean towards ownership transitions outside the family. If true, they could fill talent gaps until next gens are ready for senior roles. Formal governance processes should be implemented and coaching of family members (if interested) should begin as well. All generations need to talk and clarify the degree of importance they each attach to preserving the family business.

TRANSITION OF THE FAMILY BUSINESS OWNERSHIP



What About Long-Term Family Ownership?

Is family ownership probable over generations to come? A vast majority of business-owning families think so, but not always emphatically. **Some 78% expect future generations to own the family business**, even if they're not responsible for day-to-day operations.

Within that upbeat subset, optimism is guarded: roughly half are confident of the likelihood of continued ownership, while the over half are less confident but still agree. What does this imply? That **while many lean towards the view their business will stay in the family over generations**, uncertainty about the ultimate outcome is still a major concern. Either way, more families expect future generations to remain owners than those who don't.

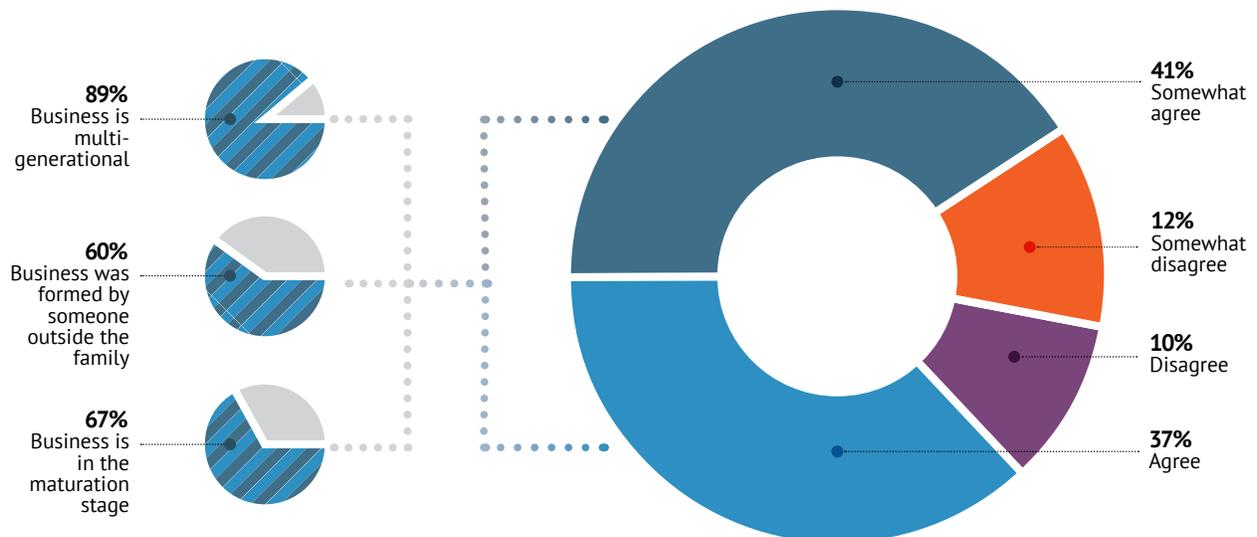
FAMILY INSIGHTS

Some family business owners aren't quite sure if future generations will own the family business because:

- 1 The senior generation made its money with essential skills they don't see in their next gens.
- 2 Formal transition processes are rarely developed by the first generation. Hence, second gens never really know if or when they'll take over.
- 3 Next gens do not want to take on risk or work in the same way as senior family members.

There is optimism among enterprise owners that their family businesses will remain family-owned. Members of future generations may not be directly involved in the business, but ownership will somehow follow bloodlines. While optimism prevails, there is a lingering cloud of uncertainty. Progressive families know that this sentiment can be addressed successfully through conducting family visioning exercises, formal family learning, formalizing succession plans and developing ownership skills.

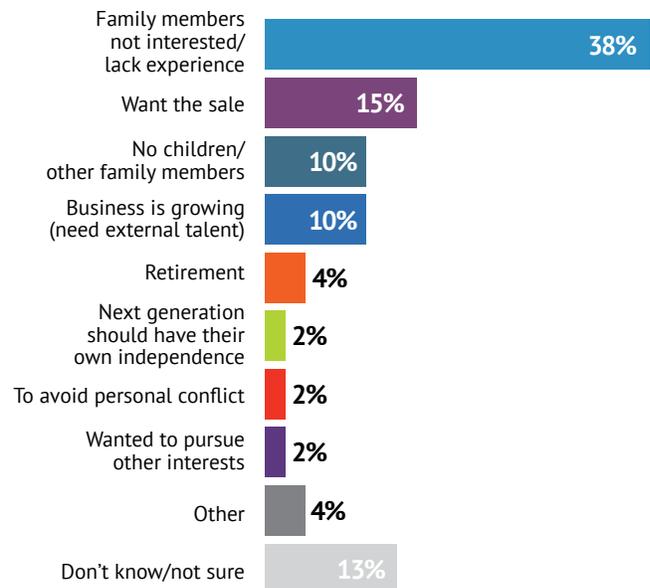
FUTURE GENERATIONS WILL CONTINUE TO OWN THE FAMILY BUSINESS



Why Might Ownership Transfer Out of the Family?

By far, the most-cited reason among business-owning families likely to turn ownership over to non-family are disinterest/lack of experience among family members. Indeed, **38% feel this way**. Current family business leaders are most likely to exit their business due to conditions – real or perceived – that suggest the next generation is ill-equipped to take over.

If lack of interest is a barrier to engaging a new generation of business owners, then family members have a duty to fully explore why. Where lack of next gen experience poses a threat to sustained family ownership, proven solutions exist to prepare the next generation for ownership and leadership roles. Senior gens must be proactive in planning and preparing for ownership transition. They must be purposeful in engaging and preparing the rising generation they wish to empower.



WE ASKED THE EXPERTS. OUR FEAS SUGGEST:

Involving children early in discussions on family values and goals can help develop interest. Later, step up to adult conversations about the family business and family wealth.

Family meetings can expose next gens to different roles that can help them feel closer to and more positive about the business.

Last, storytelling with appreciation and gratitude for the activities that lead to the success of the family enterprise can be eye-opening. Building pride and confidence that encourages entrepreneurial spirit and family inclusiveness is critical.

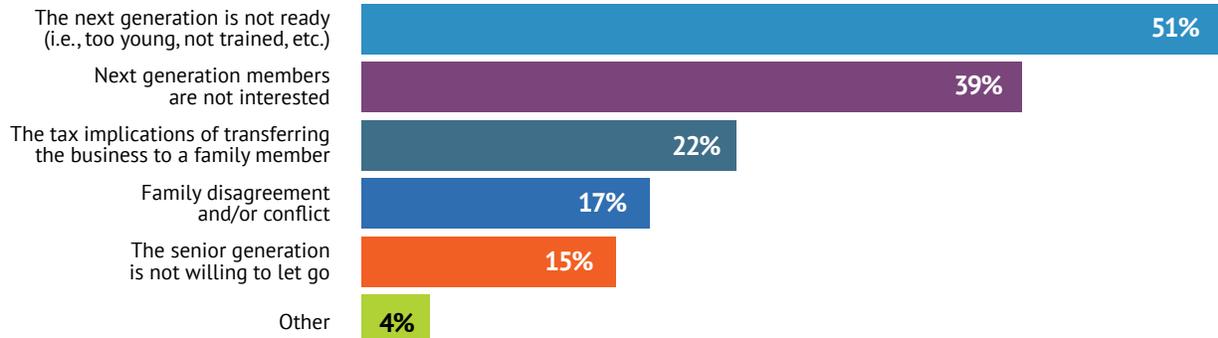
FAMILY INSIGHTS

The senior gen has their formula, have proven it and see no reason to change it. What they may not have accounted for is:

- 1 The skills needed to take the business to the next level may be different.
- 2 Unless you give real responsibility to the next generation, you will not see their real aptitude.
- 3 They may not have had conversations to know if their offspring are ready and willing.
- 4 Insecurity in the next generation: a desire to put their own mark on the world, but unsure of what is expected or involved.

What Are the Causes for Concern?

CONCERNS ABOUT INTERGENERATIONAL TRANSFER



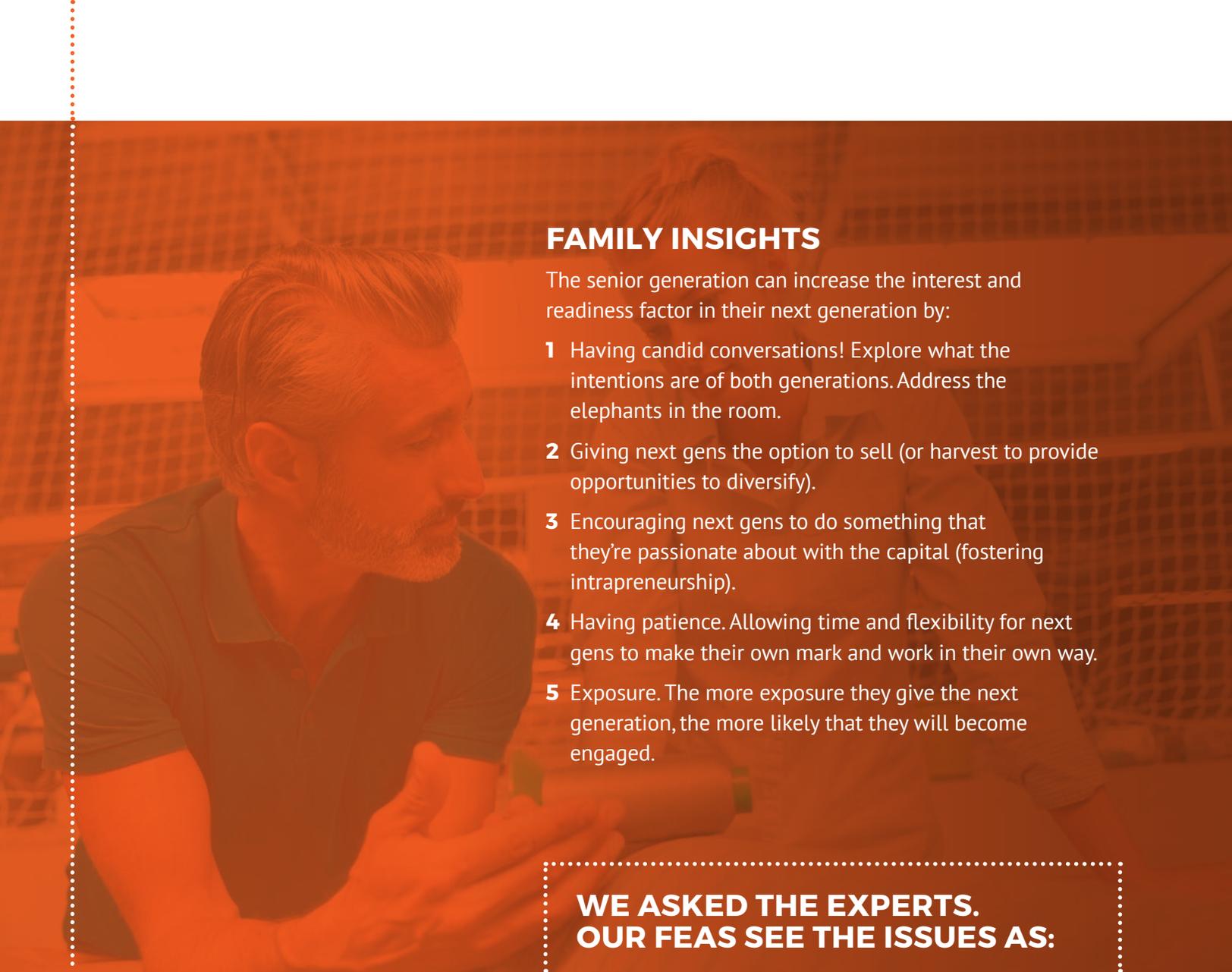
Intergenerational transfers of power stir up apprehension among owners for many reasons. **The main concern among 51% of owners is that next gens are not ready.** A secondary worry cited by 39% of owners is that next generation family members are **not interested** in taking over. The fact that **89% of owners believe that “future generations will explore other careers”** clearly has a bearing on this sentiment.

A decade or less is a tight time horizon for family business owners to transition their enterprises to new owners, whether family or not. Rarely will each element of the overlapping trinity – family, enterprise and ownership – that distinguishes family enterprises come into greater yet equal focus, as owners explore how ready, willing and eager their offspring may be. Families who are successful with succession and continuity know that open dialogue between generations is critical. If these conversations are not open and respectful, relationships between the senior and next generation will strain under the transition of ownership.



“ I meet a lot of potential successors who don’t want to take the family business because they don’t want to be the entrepreneur that their mom or dad were. ”

– Francois-Charles Sirois,
President & CEO, Telesystem



FAMILY INSIGHTS

The senior generation can increase the interest and readiness factor in their next generation by:

- 1 Having candid conversations! Explore what the intentions are of both generations. Address the elephants in the room.
- 2 Giving next gens the option to sell (or harvest to provide opportunities to diversify).
- 3 Encouraging next gens to do something that they're passionate about with the capital (fostering intrapreneurship).
- 4 Having patience. Allowing time and flexibility for next gens to make their own mark and work in their own way.
- 5 Exposure. The more exposure they give the next generation, the more likely that they will become engaged.

WE ASKED THE EXPERTS. OUR FEAS SEE THE ISSUES AS:

Families encouraging independent paths for their next generation. Today, they have more opportunities than they can pursue.

Industries are emerging and disappearing faster than ever, meaning that “Mom and Dad’s” business may appear limited to the next generation.

Next gens may also be seeking a different lifestyle balance, with more delineation between work and family.

The business and personal vision may not be shared by the next generation. They may see the obligations and stress of ownership interfering with their personal freedoms and lifestyles.

“After spending most of their lives working to build a strong and successful family business, founders may assume that their children share their passion and drive, but this is not always the case. Having meaningful conversations about the future is a critical first step to family wealth and continuity planning.”

—Richa Arora, FEA,
Senior Family Advisor,
KPMG Family Office

What next?

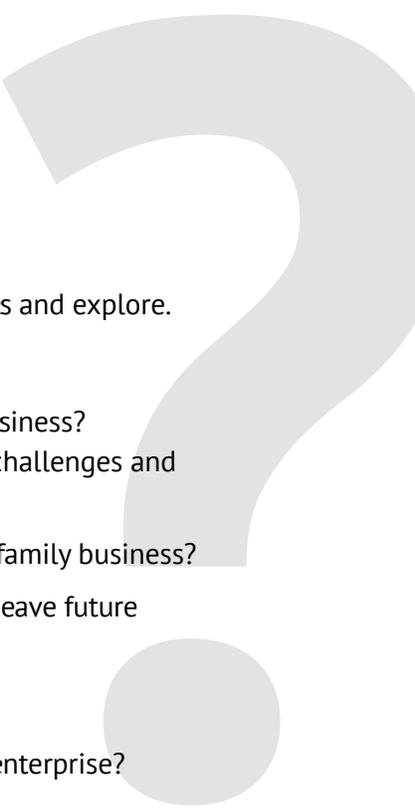
After reading this report, here are a few questions for you and your family to discuss and explore.

Next Generation Questions

- How often is it implied that you are expected to take ownership of the family business? If not interested, what is the primary reason(s) for feeling this way? Discuss the challenges and opportunities.
- Looking to the future, how interested are you in becoming more involved in the family business?
- Do you view the family business as a rewarding place to work and as a legacy to leave future generations?

Senior Generation Questions

- Have you confirmed with your next generation their interest level in the family enterprise? This should be actively explored.
- Aside from formal education (university, college, etc.), what programs and/or experiences have you put in place to encourage and develop the necessary skills in your next generation?
- Have you provided guidance or advice to the next generation on the skills needed to lead your family enterprise?



“ Formal governance procedures should be brought in and coaching of the family members should begin. ”

—Patricia Saputo, Chief Financial Officer, Placements Italcán Inc.

About the Family Enterprise Transition Intentions Survey

BACKGROUND AND OBJECTIVES

The objectives of the survey by Abacus Data for Family Enterprise Foundation are to:

- 1 Understand the current market trends in terms of the characteristics of established, medium and large family-owned businesses.
- 2 Provide data and analysis that can help the families and organizations guide strategy and program development internally, and to advise external stakeholders and family leaders on these issues.

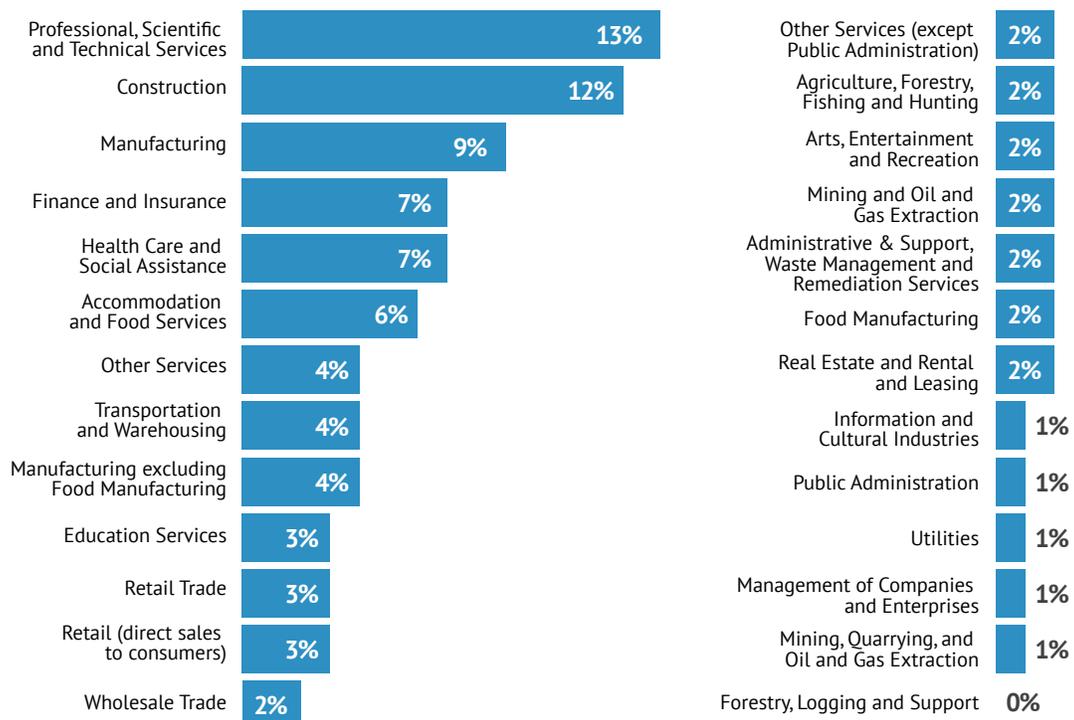
A particular focus of the survey is on the transition of ownership, including intentions, timelines and perceived barriers to and within family ownership transition.

METHODOLOGY

- The survey was conducted with 300 Canadian business owners between June 3 and June 11, 2021, by Abacus Data.
- The margin of error for a comparable probability-based random sample of the same size is +/- 5.65, 19 times out of 20.

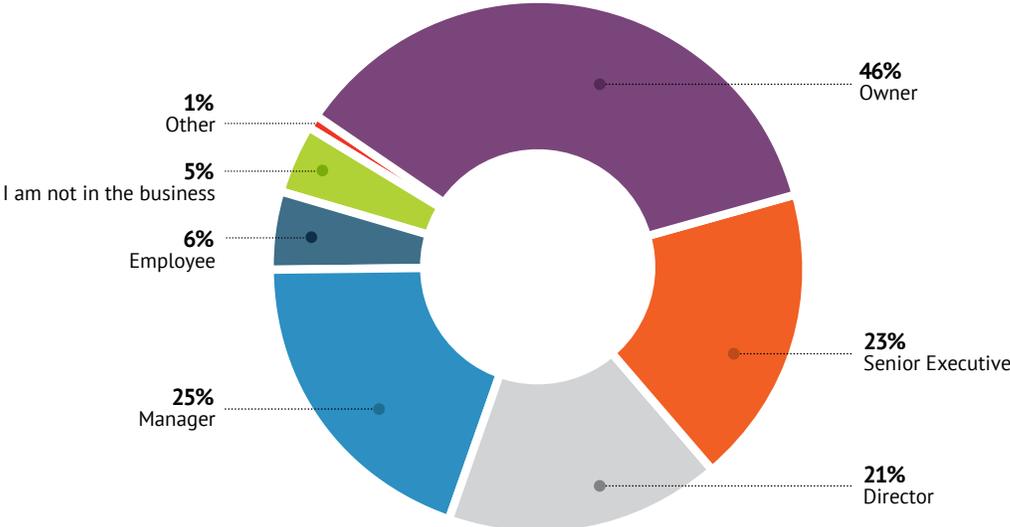
DEMOGRAPHICS

INDUSTRY SECTORS

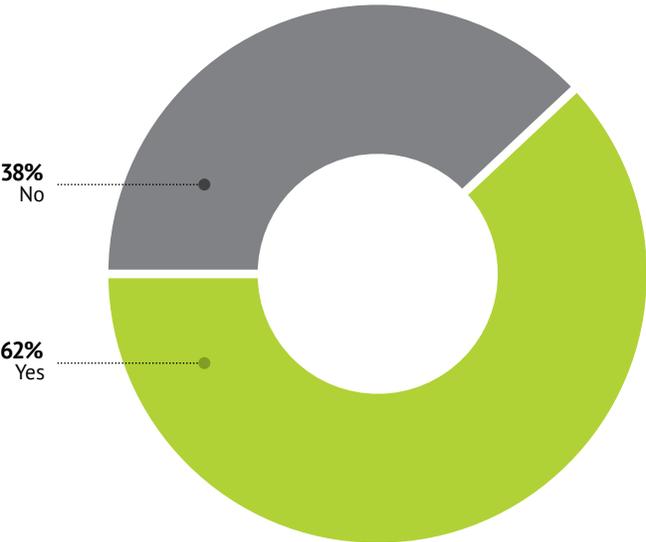
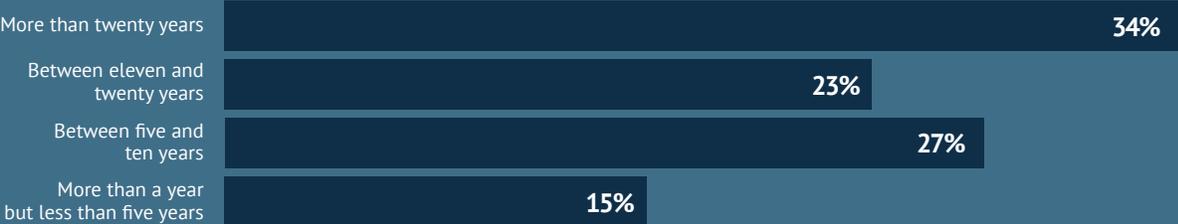


DEMOGRAPHICS (continued)

ROLE IN THE FAMILY BUSINESS



WHEN WAS THE COMPANY INCORPORATED OR FORMED?



IS THE FAMILY BUSINESS A MULTI-GENERATION BUSINESS THAT EMPLOYS FAMILY MEMBERS FROM MORE THAN ONE GENERATION CURRENTLY?

Thank You to Our Contributors

This report was prepared by Family Enterprise Foundation in collaboration with Abacus Data and through the insightful participation of members of our community.

Family Enterprise Members

- Karen Bichin – ABC Recycling, fourth generation
- Sach Chandaria – Comcraft Group of companies, fifth generation
- Sharlene Massie – About Staffing, first generation
- Patricia Saputo – Placements Italcan Inc., second generation

Family Enterprise Advisors

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- Michelle Osry – Deloitte Canada
- Susan St Amand – Sirius Financial Services
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