FINANCIAL POST

# Balancing legacy with future

Brad Cherniak, Financial Post · Tuesday, Aug. 10, 2010

What could be more invigorating than taking the helm of a business that bears your family name, and the history and legacy of the family members who stewarded the company from nothing to the success it is today?

While it usually is an honour to take over running the family firm, keeping mind of a company's rich history while maintaining business in challenging times such as these can be difficult.

The successor must juggle the past and the future asking him or herself: Is changing the way things are done progressive, or disrespectful? Who do you consult on these matters, the old guard or a new one, or both? How do you evaluate whether to sell the company? How you manage this balance will play a role in whether your company continues to prosper, or succumbs to old age and expires.

Another important context is the nature and personality of the company. At one end of the spectrum is the company that fiercely resists change, taking pride in the customs and established practices that are key to its brand.

Such companies tend to change only when forced to by external events. This is not necessarily a bad strategy depending on the nature of the market you are serving and the forces of change within it, and is often a feature of family-owned companies.

At the other end of the spectrum is the business that must constantly morph to stay current and relevant to its customers, who may themselves be morphing at high speed.

These are usually technology-based product and service companies, where tradition and customs rarely have the opportunity to take root. They often have outside technical managers as part of the team or even running the operation. These businesses are also prone to being acquired by industry leaders, as size and economies of scale tend to be dominant forces.

The largest segment, however, is the companies toward the middle of the spectrum. These are companies for whom strategic imperatives can be much more difficult to pinpoint. Here are some pointer to get your bearings after taking the helm at this kind of company:

### 1 Benchmark performance

To begin with, figure out if you are more or less profitable than comparable companies and competitors. Calculate your Earnings before Interest and Tax (or EBIT), removing all one-time or non-recurring expenditures, as well as adjusting for any items that are not strictly tied to the business such as above-market compensation or perqs.

Compare this to publicly traded companies in your industry, allowing for differences in size and scale. Also talk to colleagues in the industry and try to glean what their margins are roughly.

This step will give you a sense of whether the company's "broken" or not and if so, how urgent and major the changes need to be to fix it.

### 2 Get a sense of current value

The first exercise dovetails nicely into figuring out roughly what the company is worth. Your accountant or an advisor may be able to give you the valuation benchmarks you need. When you have a sense of the company's value, you can better determine whether major capital expenditures or strategic repositioning of your products or services are worth the cost and risk.

Both of the above steps should be doable without getting bogged down with issues of history and family legacy, and any opposing views from family stakeholders.

### 3 Assess the situation

With this framework established, you can begin to objectively and dispassionately evaluate the strengths and weaknesses of the company and its industry, as well as the way things have been done historically. This is where considerations of family can come into play.

### 4 If it's stuffy, open a window

One of the toughest issues you will deal with is whether and when to bring in outsiders, in any capacity.

Instinct must drive this decision. Whatever the governance structure of the company, whether previous generations or other family members who aren't in the day-to-day operations of the company are in an oversight role -- perhaps on the board -- you will gain a sense of whether decision-making is focused and taut, or rambling and distracted, or somewhere in between.

If your sense is things could be better, add outsiders either to the board, or form an advisory board, or add a senior member to your management team. Try incremental changes versus radical ones.

## 5 Now look to the future

Armed with facts and decision-making support, you can begin to take your company, with its rich history, and prepare for the future. The next step would be to develop long-term goals and objectives, including your exit strategy.

Read more:
http://www.financialpost.com/Balancing+legacy+with+future/3380007/story.html#ixzz0wD3qqzrm

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