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Make a plan to help your family business survive today's economy

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Family-owned businesses seeking stability must realize decisions need to be made, and there is no perfect template.

While there are plenty of private, family-owned businesses across Canada that have flown under the radar quite profitably for many years, they now face a confluence of three trends: demographics, technology and the global economic problems.

Demographics After years of anticipation of a generational “exit wave” creating huge issues for private businesses, the Baby Boomer generation is now starting to check out in numbers.

Technology So many businesses and market niches are being blown up by technology democratizing access and eliminating barriers to entry for so many industries. And it’s not all good. The line of what constitutes a business is blurring. In particular, what constitutes a good business, with a sustainable competitive advantage.

Traditional businesses are falling victim to technology as much as are software or web companies. And dealing with this conundrum takes analysis, and resources.

Economics Welcome to the era of chronic low growth, increased tax burden and onerous, oppressive regulation, which is putting many family businesses in their weakest internal condition at a time when they need inner strength to battle external challenges. This will likely plague the next couple of generations.

So how should family-owned businesses deal with this paradigm?

Step 1 Figure out if your business is stable by asking a few questions. Is it generating or burning through cash? Is it losing key internal resources through competition, or market obsolescence eliminating lines of business, or key staff departures? Is the business value flat, increasing or declining? Are there key things the business needs to add to remain stable? Will investments need to be made just to maintain the business?

These are all fairly objective questions that can be answered by research and analysis.

Step 2 Companies currently not stable, should use this step to figure out who really owns the business. The stark reality is it is that person’s sole responsibility to stabilize the business. This could involve injecting money into the business or other hard choices.

This may not be as simple as looking at the shareholder agreement or list of current shareholders with family-owned companies. Until the business is stable, you can’t look too far into the future generations seeking responsibility to address current challenges.

This is the core of the problem plaguing many western countries: No one owns the problem (of crushing debt burdens and social decline) and, therefore, no one is truly invested in solving it. There is endless discussion, handwringing and conflict-deferral solutions such as blue ribbon panels and summits.

This paradigm can similarly plague family-owned companies, with blurred hostility along personal and business lines, and too many fruitless, even pointless, family meetings. To break the cycle, the actual owners of the business must stabilize the business. They may be acting for future generations, but the buck stops with them today.

If it cannot be stabilized in a reasonable manner, then a very different set of decisions than those a stable business faces may follow.

Why is this important? Selling a business that is not stable is tantamount to a liquidation in today's markets. And passing on an unstable business to the next generation is tantamount to tossing them a grenade after the pin has been pulled.

Step 3 The first part of this step is to create a decision-making mechanism by any means. Once the state of the business is understood and the decision making body is assembled, how does this group make decisions to attain stability? Unanimous agreement? Democratically, one person one vote? Or corporately, one share one vote? Or does one person or camp take control, either with the acquiescence of the others or in a more hostile situation?

Too many family-owned companies become paralyzed and end up victims of circumstance. Hard to specify what movement is needed, but if movement is impeded, the ending is always bad in business — as in capital markets. This is the crux of the situation that family-owned businesses seeking stability must realize. Decisions need to be made, and there is no perfect template.

If you don't have a mechanism, you've got the biggest problem of all — not in the driver's seat, or even the back seat of your own destiny.

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