BUSINESS TRANSMISSIONS: CALLING FOR POTENTIAL SUCCESSORS!

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Canada has been experiencing a downturn in entrepreneurial activity, particularly in the 18-24 age bracket. Our study focuses on the entrepreneurial aspirations of younger generations in the Canadian logging industry. We studied mainly entrepreneurial behaviour in a business succession context, with a focus on the following dimensions: buyer’s values; access to information regarding business opportunities, valuation of the business, financing of the transaction and support for the buyer. The main obstacle foreseen is the industry’s precarious economic situation, followed by financing. Values of aspiring entrepreneurs differed from those associated with the Y and X generations.

INTRODUCTION

For several years, considerable effort and investments have gone into promoting and supporting entrepreneurship. Despite these efforts, Canada is experiencing a downturn in entrepreneurial activity, particularly in Quebec and other Eastern provinces. Not only has the rate of business start-ups remained low in recent years (Riverin et al., 2004), but the difficulty in finding buyers of existing firms is pressing (CFIB, 2005). The situation is particularly alarming in the 18-24 age bracket. This downward trend can be observed throughout the postmodernist countries, where values such as personal development and self-esteem prevail over material security (Uhlaner & Thurik, 2006). Becoming an entrepreneur has lost the lustre of yesteryear. In parallel with this disaffection, another equally troubling phenomenon is taking shape, namely the massive departure from the business world of a large portion of entrepreneurs. These two phenomena combined augur the threat of a significant entrepreneurial deficit. Considering the beneficial effects of entrepreneurship for economies of all kinds, this anticipated entrepreneurial deficit is an issue of great concern.

The drop in interest in an entrepreneurial career among young people may result from a change in mentality, which would be perceptible through the values embraced by new generations. What can be done to counter this apparent disaffection with entrepreneurship? Do young people have the desire to become entrepreneurs, are they ready to face the challenge and do they know how to detect emerging opportunities? How can these tasks be made easier for them? This paper will attempt to answer these questions. Our research will concentrate on generations X and Y because their members constitute the potential succession in terms of business acquisition and start-up. Furthermore, we have elected to study a specific sector of the Canadian economy, namely the logging industry.

This paper begins with a review of the literature on the characteristics of members of generations X and Y and the impact of these characteristics on the entrepreneurial aspirations of these groups. Second, we will address the problem of succession and the factors that can encourage aspiring entrepreneurs to buy a business, or, conversely, deter them from doing so. We briefly describe the particular research context, namely that of the logging industry, and specify the conceptual framework and the research methodology favoured. We then present the results, followed by a discussion and conclusion.

LITERATURE REVIEW

A generation is defined by demographic elements along with key events that shape, to a certain point, the distinctive characteristics of the population group (Sutton, Bell & Narz, 2007). Generations are circumscribed according to the age of their members, i.e. they group together all people born in a given
period. This approach rests on the fact that one or more historical events marked the childhood and adolescence of these people (Kupperschmidt, 2000; Smola & Sutton, 2002). Each generation thus shares a distinct personality, conferring distinctive desires and aspirations on its members (Schumna & Rodgers, 2004). Presently, three main generations cohabit within organizations: baby boomers, generation X and generation Y (Glass, 2007). The two latter groups make up the main pool of entrepreneurs or potential business purchasers.

Generations X and Y

Born between 1961 and 1978, members of generation X comprised 34% of active workers in 2006 (Burke, 2004). They are the children of baby boomers and have therefore lived in family settings where both parents were in the workforce, and, in a sense, suffered the consequences. Unlike their parents, they have no intention of putting work before family. The work/family balance is indeed one of the most important satisfaction factors for young generations. They generally perceive their career as a means of obtaining satisfactory leisure time, namely with their family. Autonomous, creative, optimistic and confident, they value education, independence and the family more than work. They have little loyalty towards their employer. They offer their expertise and experience to the employer that best meets their needs, particularly concerning the work/family balance (Gursoy, Maier & Chi, 2008; Krug, 1998; Sutton, Bell & Narz, 2007; Szamosi, 2006).

By digging deeper, however, it becomes clear that Xs are not “disloyal,” but rather are sceptical of institutions and are on their guard when it comes time to invest their creative energy with no guarantee of getting something in return (Flynn, 1996). People in this generation are ready to work providing their efforts are appreciated and recognized. They like being allowed to do things their own way: give with objectives and timetables but do not tell them how to get from point A to point B (Gursoy, Maier & Chi, 2008). In their work, they require situations of mutual game, and tend to defy authority and seek diversity, flexibility and teamwork (Krug, 1998).

Members of generation Y are in their early 20s. They make up only 12% of workers in 2006, but their presence is rapidly increasing (Burke, 2004). Even if Ys are often grouped with Xs, the two generations differ in major respects. For instance, generation Yers are more familiar with technology and computers. They are multifunctional and are also said to adapt well to emergency environments (McGlynn, 2005). Ys were exposed to several lifestyles and cultures from a young age. They therefore respect different races, ethnic groups and sexual orientations and are comfortable with diversity (Downing, 2006).

Ys seek creative challenges and projects with precise timetables: this way they can manage their own tasks. They are oriented toward feedback and teamwork (Gursoy, Maier & Chi, 2008). Their work must therefore be flexible, present telecommunications options and possibilities of working part time or taking temporary leave when they want to have children (Buckley et al., 2001). Similar to Xs, Ys are not afraid to ask for what they want. Overall, they are more loyal to their lifestyle than to their work and they consider balance very important (Noël, 2004). Socially active, Ys are committed to and oriented toward teamwork. They are the most confident generation because they have learned to develop their self-esteem. However, they are not patient: they need an immediate sense of accomplishment or they will go elsewhere (McGlynn, 2005).

In light of the above findings, it seems surprising that members of these two generations shun entrepreneurship. They have several traits generally associated with entrepreneurs, such as the desire for autonomy, creativity, self-esteem and resourcefulness. However, they do not value work and financial success as much as family and leisure, which may explain their hesitation to embark on a business project, at least according to a traditional business model. They probably are not as enticed by the idea of working tirelessly to launch a business, sacrificing recreation and family along the way. One can also question their tolerance for effort and perseverance: they resemble sprinters more than marathon runners.

Business succession

We will now examine the other phenomenon of interests: the mass withdrawal from business of older entrepreneurs. In Canada, there are good reasons to be concerned about the anticipated retirement of a large number of small business owners. According to a 2004 study conducted by the Canadian
Federation of Independent Business, of the 4431 members surveyed, 41% plan to leave their firm within five years, and another 30% expect to do so within ten years. The situation is comparable in Australia and the US (CPA Australia, 2004; Dahl, 2005). These figures are certainly impressive but they mask a more subtle reality. First, the vast majority of the firms in question are micro-enterprises. Out of all these firms, some have little chance of finding a buyer and are instead destined to be liquidated, particularly because they no longer hold a favourable competitive position (APCE, 2003). Moreover, each year a good number of enterprises close their doors for a number of reasons. These closures are usually compensated by an equivalent or higher number of business start-ups. This turnover is healthy in a dynamic economy, as long as openings exceed closures. However, it is unacceptable for viable firms to shut down because of a deficient succession process.

Transmitting an SME is a complex and delicate operation, whose success is not guaranteed. The literature identifies certain factors that can facilitate the process and increase the chances of survival of the transferred company. Other factors, in contrast, can hamper the process.

Success factors

To maximize the chances of success, it is preferable that the departure of the business owner following the sale of his firm be gradual rather than abrupt. In fact, it is best for the seller to remain active in the firm long enough to initiate the new owner, as a mentor would. In the context of family succession, research indicates that there is a link between the success of a transgenerational transfer and the quality of the relationship between the assignor and the successor (LeBreton-Miller et al., 2004; Ward, 1987). This relationship should be characterized by trust and mutual respect; the assignor must agree to gradually cede decision-making power and grant the aspiring leader sufficient autonomy to learn his or her new role (Barach & Gantisky, 1995; Wang et al., 2004).

It seems also essential that the buyer be knowledgeable about the firm’s business sector. This quality has been rated as the most important for a potential buyer to possess by European entrepreneurs about to transfer their business (Transregio, 2005). Conversely, poor knowledge of the sector by the buyer purportedly increases the risks of bankruptcy by 50% (OSEO, 2005).

Lastly, planning the imminent transfer contributes to its success, especially in the case of family-run businesses for which the process should be prepared far in advance because of its complexity (LeBreton-Miller et al., 2004). The absence of planning is considered one of the main causes of failure of the transfer process (Mandl, 2004; SBS, 2004). Nonetheless, few entrepreneurs engage in this exercise: studies conducted around the world find that only 1/3 of executives already have a plan, and most of these plans are informal (Blackburn & Stokes, 2002; Cliffe, 1998; CFIB, 2005; CPA Australia, 2004; Voithofer, 2002).

Difficulties associated with the succession process

Difficulties associated with business transfer are not necessarily the same from the perspective of the assignor and of the potential buyer. Finding the necessary funds to finance the purchase is a difficulty specific to the buyer even if it also concerns the seller (CFIB, 2005). It is more a concern during transfers between unrelated people (outside of the family) and transactions where the purchaser is an individual rather than a company. The purchase price of a business is generally much higher than what aspiring entrepreneurs would have to invest to start their own firms. A substantial personal outlay is therefore necessary, and a bank loan must be contracted to finance the transaction (Counot & Mullic, 2004; Richer et al., 2004). This may result in an excessive debt ratio, which in turn compromises the long-term survival of the business.

For both parties to the transaction, finding the right match is a formidable problem, namely finding the right buyer and the right business for sale (CFIB, 2005; Transregio, 2005). For profitable midsize businesses there is a relatively active market; the main intermediaries are accounting firms, specialized brokers and banks (Martin et al., 2002). In contrast: firms that have the most difficulty attracting potential buyers are the smaller ones whose management rests entirely on the owner-manager and whose objectives are to satisfy the personal needs of the owner rather than profit maximization. Other businesses require expertise, a trade or particular technical knowledge, thus limiting the pool of potential buyers. Lastly, firms operating in a declining sector or region, or demonstrating little profit potential also struggle to attract buyers (CPA Australia, 2004). As for potential buyers, either they do
not know where to find out about business opportunities or such a meeting place does not exist altogether. To correct this imperfection in the market, several European countries have introduced measures to facilitate contact between potential sellers and buyers (CE, 2006).

Another stumbling block is valuation of the business (CFIB, 2005). First, the vast majority of the firms are not listed on the stock exchange, and finding recent transactions of comparable firms whose details have been made public is very challenging (SBS, 2004). How then can one appraise assets such as goodwill or take into account SME owners’ sometimes creative ways of reporting their financial results? There is a serious problem of information asymmetry, whereby the seller has much more information that can be used to establish the real value than the buyer does.

Lastly, access to advice at a reasonable price seems to be problematic for both the seller and the buyer (CFIB, 2005). Preferred sources of advice are accountants, tax specialists, legal advisers and bankers (Mandl, 2004). Here again however, the information does not seem to circulate well because many entrepreneurs admit they do not know who to turn to for help (CPA Australia, 2004).

The context of the logging industry in Quebec

Logging entrepreneurs are the first link in the forestry procurement network. Their tasks consist in felling on a given location the trees that reach a degree of maturity, stripping the branches, cutting them into logs of predetermined lengths and bringing them to the sides of the forest road, while meeting government standards for protection and harvesting of the forest. These operations were previously integrated in the activities of large forestry companies. The waves of mechanization of the ’60s and 70s, however, prompted companies to gradually discontinue these activities and delegate them to subcontractors (Mercure, 1996). This new work organization offered them more flexibility and reduced their risk of managing a fleet of costly and relatively sophisticated motorized equipment. To put such a structure in place, the large forestry companies provided their most talented and resourceful employees with financial help so that they could become owners of their own work equipment, and hired them as subcontractors.

In the vast majority of cases, harvesting companies are micro-enterprises with fewer than five employees. They have few assets (in number), but of high value. A typical harvesting firm owns a harvester, a transporter, a service truck and an inventory of spare parts. The value of these assets can easily approach $1.5 million. They depreciate quickly because of their intensive use (24 hours per day, 10 months per year), and because of the often harsh conditions under which they are operated. This high cost is undoubtedly the main entry barrier to the industry.

CONCEPTUAL FRAMEWORK AND METHODOLOGY

In light of the literature review and given the particular context of the logging industry, particular attention will be paid to the following dimensions that could influence the succession process from the buyer’s standpoint:

- Buyer’s values
- Access to information regarding business opportunities
- Valuation of the business and its assets
- Financing of the transaction
- Support for the buyer (training and coaching)

The population of potential entrepreneurs-buyers that we chose to study is that of loggers. To identify potential entrepreneurs-buyers, a questionnaire was distributed in two forestry camps in Quebec, in the summer of 2007. Nearly 90 of the 280 questionnaires were returned, from which we identified 15 respondents interested in becoming a forestry entrepreneur (either through a business acquisition or a start-up) and who were also available for an interview.
An interview grid was prepared to ensure that the aspects of the succession process included in the conceptual framework were properly documented. Questions were mostly open-ended and allowed elaboration on the phenomenon. They mainly concerned respondents’ vision of entrepreneurship, of the purchasing process and its obstacles, along the lines described in the previous section. Personal interviews were conducted with the respondents, and the multi-site case study method was used to analyze the data gathered (Eisenhardt, 1989; Yin, 1984).

RESULTS

Nearly 40% of the workers surveyed reported that they intended to become entrepreneurs. For most it was an eventual plan, whereas for a minority it was a project that they hoped to realize within five years. These figures are fairly comparable to those obtained in the study of the Quebec population conducted by the Global Entrepreneurship Monitor (Riverin & Jean, 2004). In the 18 to 24 age bracket, the proportion of Quebecers that wanted to start their own business over the short term (three years) was 18%, whereas this proportion was 19% among the loggers in the same age group, although their horizon for attaining this goal was five years. The difficulties plaguing the forestry industry in Quebec therefore do not seem to have sapped the enthusiasm of forestry workers who dream of one day being their own boss.

Now we will examine more closely the group of 15 aspiring entrepreneurs that agreed to participate in the study. They practically do not know another trade than that of logger. Most pursued vocational training in this field yet some have very little education, and did not even finish high school. None have training in management or administration. Ambivalence was noted regarding the preferred entry mode: most of the respondents were open to starting their own business or buying an existing one. The most important considerations are price and business opportunities. Note that few respondents envision taking over from their employer, some because a family successor is present and others because the company is too large or their employer is too young. There is another option, that of joining with a majority partner that could financially support the business. For a few unshakeable individuals who insist on their independence, this avenue is definitely not desirable, although most of the others find this formula attractive given their anticipated difficulties in financing the project. Moreover, we observed only three cases of family succession among the 15 respondents, which seems to support the thesis that it is increasingly rare to find a family successor that is both interested and competent (CFIB, 2005; CPA Australia, 2004). This is nonetheless surprising in the logging sector, where traditionally the trade was handed down from father to son. Evidently, given the restricted size of the sample these results should be interpreted with caution.

Buyer’s values

Interestingly, all respondents manifested passion for their trade and the forest. They simply cannot imagine doing another type of work and they appreciate all its aspects, in particular working outdoors, in nature, and not having a boss constantly looking over their shoulder. Curiously, the aspects of working in a forest that city dwellers would find daunting are not perceived this way by the respondents: distance, even isolation, demanding work conditions, atypical schedules, prolonged absence from home and the promiscuity inherent in life in the forestry camps are not perceived as unpleasant. Some even admit that they feel better in the camp then when they spend a long period of time in a city, where everything is hectic and moves too quickly. As for concerns with the work/family balance so important to generations X and Y, they appear to be pretty much absent. The respondents’ spouses purportedly accept that their husband is absent from home all week and that they are in charge of raising the children. The respondents have no complaints about the situation. For those who are not married yet, they do not foresee any problem finding a partner who will accept these terms.

Accessibility of information regarding business opportunities

There is a very marked difference between the responses obtained in the two forestry camps where the data were gathered. In Camp Lisette, the workers spoke very little among themselves of businesses or assets that were up for sale, or of entrepreneurs that were seeking a successor. Such subjects were almost taboo; the information simply did not circulate. At Camp Caribou, the workers were much more aware of offers on the market and did not hesitate to discuss them openly. Incidentally, several entrepreneurs that operated in Camp Caribou had to put their equipment in storage this year because they did not have a contract. This equipment may have been sold to the highest bidder, especially if the
Valuation of the business and its assets

As mentioned above, the typical logging company is very small and has few assets, but the ones they do have are very expensive. The makeup of the assets varies little or not at all between firms, only the brand of equipment may differ; their functions are essentially the same. The firm has no place of business in the strict sense, therefore does not possess real estate assets or a lease, apart from a garage in some cases. In addition, it is difficult to justify the presence of goodwill because the contracts are all short term, with no renewal guarantee. Past income is therefore no guarantee of future income, which mainly depends on the order giver. Some added value, however, may exist because of the quality of the team of workers, which can be evaluated based on factors such as volume of wood cut in one year, means of production (number of machines in operation), number of hours worked and characteristics of the land harvested. However, the high mobility of workers limits the existence of this type of added value. Given this apparent simplicity in the makeup of assets, it is therefore not surprising that the vast majority of respondents have a fairly precise idea of the value of a typical logging business or the assets that that it owns.

Interestingly, the two respondents that said they intend to become entrepreneurs over the short term did not yet have a precise idea of the price they would pay and the applicable financing conditions, notably from the seller. The respondent that wanted to take over the family firm felt somewhat ill at ease discussing figures with his father. He did not want to rush him and was waiting for him to take the initiative. As for the respondent who hopes to take over from his employer, he anticipates having to spend between $500,000 and $600,000 but he did not know the precise nature of the financial package that his employer’s accountant would propose. His employer reassured him by saying that there would be no problem, an agreement would be reached. It is evident that in these two cases of succession, the buyer is playing a passive role in establishing the value of the target business. This might be because of his poor negotiating position. Conceivably, it is easier to value a business or assets theoretically than to set a specific price for a particular firm that one wants to buy.

Financing

Finding a source of financing is a major problem for those who do not have the opportunity to take over a family business or join with a majority partner. Apprehension is high and the general perception is that financial institutions are currently very reticent to invest in the forestry sector given the uncertainty over an eventual upswing and the low profitability of the firms in this sector. When asked about the personal outlay financial institutions would require from the buyer, answers ranged from 10% to 50% of the transaction amount. Most of the respondents were quite perplexed by this question and, to reply, relied on what they had heard “through the grapevine.” No one had contacted an institution to verify the facts. The most favourable scenario (10%), nonetheless represents a minimum outlay of $100,000, an amount that few loggers could manage to put aside, given their level of income. Unless they had savings of this size, they would certainly have to mortgage the assets that they accumulated over the years. Strangely, however, very few respondents were willing to do so.

Financial institutions are not the only possible sources of financing: retiring entrepreneurs can also agree to finance the balance of the sale price or lease some assets to the buyer, to ease his financial burden. This solution, although attractive, does not seem to have been considered by the majority of respondents. Apparently, it is not the industry norm. The situation may change, as one respondent commented: “If those that want to leave want a buyer, they will have to give the successor a helping hand.” Another respondent went further by saying that it would only be a fair if the current entrepreneurs helped the next generation just as they were supported by the large pulp and paper mills in their early days.

Support for the buyer

Most respondents recognized that they have gaps in management, finance and accounting knowledge. However, they feel relatively competent concerning management of activities in the field. If they
would need help, they would ask for advice from former bosses, family members working in the industry or more experienced colleagues. Obtaining advice from the entrepreneur who sells the firm was not a very popular avenue, some being staunchly opposed to this. The idea of using a coach was embraced by some respondents whereas others considered it out of the question. One thing is certain: the coach should have intimate knowledge of the logging sector to have any credibility with the respondents. Regarding training, the respondents were relatively receptive, either in financial accounting or mechanics, or even in new technologies and methods.

**DISCUSSION OF RESULTS**

The next generation of aspiring entrepreneurs indeed seems to be present within the ranks of loggers. However, current economic doldrums prompt the vast majority of them to defer their business projects. For now, the main barrier they perceive is the highly unfavourable economic climate. Should the economic situation improve, the second obstacle aspiring entrepreneurs in the logging sector face would be financing their projects. Most forestry workers have little savings available for an outlay and few assets that could be used as collateral. Given the high amount to pay to acquire a logging company (about $1 million), they therefore risk having a loan application rejected by the bank, or, in case of acceptance, their debt level would be so high that it would imperil the longer term survival of the firm. The situation is certainly less dramatic in the case of family succession. These transactions often take place under advantageous conditions for the successor, in terms of price, outlay and repayment conditions (Senbel & St-Cyr, 2007). The situation is also different when the logger joins with a majority partner that supplies the capital required. Some respondents believe that only these two business models will be viable in the logging sector.

Access to information concerning businesses or assets on the market circulates fairly well. Workers at Camp Caribou are generally well informed of business opportunities whereas at Camp Lisette, this subject is not openly discussed. To improve the dissemination of information, one can consider creating a portal on the Internet where people could sell their assets confidentially. Such a portal could be inspired by similar initiatives successfully launched in Europe. The role of “information broker,” played by sellers of forestry equipment, could also become more formal. As they already hold much strategic information regarding the retirement plans of forestry contractors, they could disseminate this information more broadly, with the contractor’s consent, of course.

Regarding support to provide for aspiring entrepreneurs, many say that they can count on resource persons (former boss, family, etc.) for advice. Most are also open to coaching, preferably from an experienced professional. As coaching consists in developing the apprentice’s skills, showing him how to execute some tasks so that he can then perform them autonomously, this implies direct interaction between the parties, often at the workplace. For example, the coaching program for young entrepreneurs launched by the virtual incubator in the Mauricie region of Quebec foresees the presence of a coach that works with the entrepreneur once a week (Audet & Couteret, 2005). Because forestry camps tend to be far from towns and villages, this operating mode may be problematic. It would probably be easier logistically if the meetings between coach and protégé took place at the entrepreneur’s home. For coaching in accounting and financial management of the business, this approach could even be preferable because the entrepreneur probably keeps his accounting information at home. If the coaching is linked to the forestry activities, the logistics problem can be reduced if the coach assists more than one protégé in the same camp, which would make his travel time more profitable.

Regarding training, the respondents recognize some limits to their knowledge base and are willing to take intensive courses during the spring break. The preferred areas of study are financial accounting and mechanics. One can imagine that as part of a general objective of improving the skills of forestry workers, such development sessions could be offered to all workers.

Regarding the values that aspiring buyers seem to hold, they are decidedly traditional and fairly different from those that the literature generally attributes to members of generations X and Y. This is probably explained by two factors. First, the Quebec forestry industry is one in which mentalities are very conservative, even “old school.” Second, logging activities take place in regions far from large urban centers and attract workers from these very peripheral regions. The mentality is probably slower to change in these regions than in urban centers. Thus, to observe the entrepreneurial attitudes and
beliefs of generations X and Y, it would be preferable to choose a field of observation that is more urban, together with a more dynamic and innovation-driven industrial sector.

CONCLUSION

Certainly, the data gathered shed only limited light on the business buying aspirations of young loggers, because only 15 respondents were interviewed. Further, the data gathered pertain to perceptions of workers and not the real conditions of succession in the forestry sector. These research limitations are worth pointing out, along with the fact that, evidently, the research related to a very specific economic sector (logging), with firms operating in a very particular context (remoteness, subcontracting, marginal profitability, etc.). To more clearly discern the generational problem, it could be worth replicating this study in sectors of the new economy, which are more likely to attract young people whose profile more closely resembles the model proposed for generations X and Y.

Nonetheless, financing is undoubtedly the most important barrier that potential entrepreneurs-buyers face, regardless of the sector concerned. Although in Quebec measures to improve access to financing have been put in place by the government and financial institutions, they target only a small proportion of succession cases. Given the current economic downturn, financing problems of aspiring entrepreneurs are likely to become even more acute and should be of general concern.

BIBLIOGRAPHY


