

The Resilient Family Enterprise series

## Putting family first in IPO deliberations

For many family business founders, the decision to stay private is a personal one. They built their company from the ground up and they don't want to put its fate in the hands of outsiders. When the day comes, many may assume they will pass the torch to their sons and daughters or other members of the family who are committed to sustaining their legacy.

It's not until a crisis hits that the ground beneath such assumptions begins to crumble. And few crises have created as much uncertainty as the coronavirus pandemic. For more than a year now, families the world over have had to grapple with the loss of loved ones and caring for those who were afflicted. Those who run companies have had to do double duty, ensuring their companies have the resources and agility to stay afloat and stay competitive.


The strain created by the global crisis has revealed deep cracks within some family-run organizations. Succession issues have risen to the fore. Gaps between generations have suddenly appeared as aging business leaders have been compromised in their activities or forced to consider the future. Even under the best of circumstances, younger family members are often interested in charting their own path, explaining in part why many family-run businesses don't survive into the second or third generations. Other families may be pressed for cash, either to shore up their own finances in the wake of the crisis or to pursue other opportunities created by it.

### **An IPO as a flex tool**

Against this backdrop, sales of shares to the public are gaining fresh attention in family enterprises. They increasingly see an

initial public offering (IPO) as a lever they can pull to retain some control over the business while keeping their options open for their future involvement.

In the Asia-Pacific region, for example, we are seeing many family enterprises float a minority share in their companies in order to secure their legacy and smooth the transition to the next generation of leaders, whether they come from the family or elsewhere. A public offering is often a watershed event for those who built their companies from nothing. After the offering, many of these entrepreneurs decide to remain at the helm of the company, either in a CEO capacity or as chairman of the board. If the family's next generation doesn't see a management role in their future, they can simply sell down their shares over time without creating any uncertainty over the survival or direction of the company.



## Going public can be a significant departure for family business leaders used to running their own show, and enjoying the benefits of being private.

Liquidity is another significant motivation. Even when families aren't hard-pressed to extract cash from their business, there are often other competing priorities. Investing in a single enterprise with such fierce determination often leaves families overly reliant on those revenue streams, making an argument for diversifying beyond the family business. Younger family members may have other passions they want to pursue, requiring start-up funding. Many businesses that survived the pandemic are now as efficient and productive as ever, and, as such, they can fetch a handsome price in global equity markets that continue to make new records.

Given the current state of the markets, an IPO can also be an attractive vehicle for raising funds in pursuit of new growth opportunities. Even as many companies are coming out of the crisis stronger, others have been significantly weakened, creating acquisition opportunities for consolidation and integration into bigger, stronger competitors. An IPO can also give family businesses the brand-name recognition and capital they need to attract top talent and build new teams and capabilities.

### **Starting the conversation**

To be sure, going public can be a significant departure for family business leaders used to running their own show, and enjoying the benefits of being private. In most countries, public companies face additional scrutiny and are subjected to more onerous regulations. Public investors have high expectations for the companies they invest in, and it can be taxing trying to meet their demands on a consistent basis. The executives who run public companies are often in the spotlight, and missteps can be tough to remedy from a reputational standpoint.

Weighing these potential pros and cons takes careful deliberation, the kind that too many family businesses have avoided in the past for fear of sowing conflict. As the latest crisis has revealed, though, these tensions are often bubbling beneath the surface and only rise to the top when conditions become dire.

Just as many companies have used COVID-19 as a time for getting their house in order and accelerate their development, we believe the families who run businesses together share the same opportunity. The crisis has brought family members closer together than they might have been in years. Before that window closes, families owe it to themselves to ask each other about their individual wants and needs. In Deloitte's 2019 Global Family Business Survey, only 35 percent of respondents said their company objectives align with their family goals, creating threats to performance, growth, and longevity. The fact is, in too many family enterprises, they fail to put the family first, instead making decisions in isolation about what's best for the business.

Questions they should be asking themselves include:

- What is our family's ultimate purpose in operating this business?
- What are our family values and how does the business align with them?
- What legacy do we want to leave behind?
- What role, if any, do younger family members see for themselves in the business?

Admittedly, these are tough questions to answer, and they may bring up certain emotions. But they are important to have and much better handled in a period of calm.

Ultimately, the path forward depends on each family's situation. You might be perfectly positioned for the post-COVID environment and able to extract more value as a private concern, with next-gen leaders waiting in the wings to take responsibility. Or you might benefit from the notoriety and capital that an IPO can bring. The sooner you agree on direction as a family, the sooner you will be able to start planning the future you all deserve.

*Special thanks to Peter Pagonis, Partner, Deloitte Australia.*




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