

John Teleske

Family Business Succession



One third of family businesses are successfully transferred by the founder to the next generation. Of those, roughly one third survive the transition from the second to third generation. Overall, only 1 in 10 businesses will be successfully transferred from the founder to grandchildren.

Many family business founders look fondly toward a future where they will be able to pass their business on to their son or daughter, certain that it will continue to thrive due to the wise guidance they've given. All too often, however, it doesn't happen.

Succession from one generation to the next can be a major cause of



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conflict within family businesses. How do you make sure this doesn't happen to you?

There are four major steps to success in succession for family businesses.

1. See If Succession within the Family is a Viable Idea

There are two key questions to ask:

- Are my children capable of running the business after I retire? To find your answer, take an unbiased look at the leadership and management abilities of possible successors. Ask for the frank (and confidential) opinions of other senior employees. Professional advice may help you get an unbiased view.
- Is my intended successor interested in running the business? All too often, this topic does not get discussed—the founder may simply assume the child will be willing to take

over, when the child really wants nothing to do with it and is afraid to say so. So, be sure to ask.

If succession inside the family is not viable, consider alternatives such as retaining ownership within the family, while having a nonfamily member provide leadership and management, or using an interim chief executive until your intended successor is ready.

2. Develop Your Succession Plan

For many family business founders, one of the most difficult steps is accepting that a formal written plan is necessary. This may seem obvious but many owners can't face the idea that business decisions will gradually leave their hands and pass to the hands of another.

Your plan should clearly identify your successor or how duties will be divided among successors. All individuals concerned will face less uncertainty and will be able to adapt to their new roles. To make this successful, be sure to seek the views of those involved.

An important point—if you are considering multiple successors—make sure you're making the choice for the right reason. Going with multiple successors because you can't bear the prospect of choosing between

or among your children may be a poor business decision.

Don't lose sight of the fact that one of the reasons your business flourished when compared with larger, more bureaucratic organizations is the presence of a strong leader.

One possible structure for multiple successors is a "family partnership," where each child is a full partner whose approval is needed on all major decisions. An alternative is a "first-among-equals" approach, where one individual has day-to-day control with the others contributing only to the most fundamental decisions. The structure you choose depends on the circumstances, including the personalities involved.

Start the successor process early. Your successor should be participating in key decisions, meeting main business contacts, and gradually assuming your duties. He or she should be given a chance to work in different areas of the business, to learn how the whole operation fits together.

3. Monitor implementation

Your plan should include "milestones" and deadlines such as the transfer of day-to-day decisions so your successor can build good relationships with all key customers. Review progress regularly with all concerned to see how they see the process developing.

4. Coordinate Succession Planning with Personal Tax Planning

You will need expert advice from someone familiar with your business and your personal circumstances, to ensure your succession plan is as efficient as possible from a tax perspective.

The result should be a smooth succession that will allow you to transition with the certainty that your family and employees will have a secure future.

Should the transfer of the business by the founder to the next generation not be possible, a sale may have to be considered.

No matter why you are selling, it is important to look at the options

and plan to make the preferred option happen.

In most cases, outright liquidation is the worst choice. Simply selling off the company's physical assets—such as equipment, real estate, and raw materials—will realize only a fraction of their value. It should be considered only if the business has no existing client base, contracts, or other assets to speak of.

The founder must understand that others may see many aspects of the business that need changing.

If you are selling your company as a going concern, you have many considerations other than just who will pay the highest price. You may have to consider the welfare of your children, spouse, or other family members.

Additionally, many founders feel a commitment to loyal longtime employees and will want to look out for their interests. Balancing these concerns may involve tradeoffs that may make some people unhappy, so these decisions must not be made lightly.

These are the three main options.

- Sale to another company, possibly in the same industry
- Management buyout, where senior management in the company, possibly including family members, agrees to buy the business from the founder
- Going public: selling shares of the business to the public, perhaps on a public stock market

You'll need to keep in mind that the option of going public will really only be an option for larger family businesses, due to the costs involved.

In any of these options, one of the most important factors is establishing appropriate terms of sale and a fair price.

In many family businesses, one of the greatest strengths is the relationship the founder has with employees, customers, and suppliers. The buyer may find it extremely important to have the founder "stay on" to help transfer these relationships. The owner also may need to transfer know-how and procedures. The buyer may insist on a transitional period. It is generally a safe assumption, however, that the purchaser may not be interested in your services over the long term.

In establishing the price, many owners do not have an objective idea of the value of the business, often due to natural pride of ownership and accomplishment.

The founder must understand that others may see many aspects of the business that need changing. Many founders find sale negotiations difficult. The business is your pride and joy and many prospective purchasers will point out weaknesses and deficiencies in an attempt to lower the price.

In establishing value, negotiating the sale, and the other steps in the sale process, it is best to employ a professional. Someone with proper qualifications will be in a position to help establish a value for the business and to assist you in negotiations with the purchaser.

If you make the decision to sell or develop a succession plan for the business, a professional with experience in family businesses will be able to guide the founder and the family through the many issues that will arise. ▲

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John Teleske, a chartered accountant in public practice with BDO Dunwoody LLP, has worked with small- and medium-sized businesses for more than 30 years.

Voice: 604 688-5421
jteleske@bdo.ca