

# Preparing the family or next generation to take over the business

As a business owner, you've worked hard to build a successful business, and perhaps you envision your children taking ownership and control when you retire. Having a succession plan in place will help to ensure a smooth transition to the next generation, and the continued success of your business. This article explores several considerations to keep in mind when planning the transition of your business.

## Plan early

Business succession is a process, not a one-time event. Start discussions with your children (or other family members) early; ideally, at least three or more years in advance of the actual transition. Communication is key, it's important to understand different perspectives and expectations, and to be flexible. This will help facilitate a smooth transfer of responsibility and maintain the operational continuity of the business.

### **During the initial planning phase, you should ask yourself a few questions:**

- Who will take over the business? Will it be one or more of your children, or another family member?
- Who will be responsible for making business decisions? It's important to think about who will be the key decision maker(s) upon your eventual full exit from the business.
- Will your children have part or full ownership of the business? Consider whether and for how long you want to continue to participate in the growth of the company or retain control through share ownership (if applicable). Be sure to speak with your tax and legal professionals to understand the full implications of these decisions.

- How will the transition impact any of your children who will not be involved in the business, and your estate planning?
- What is the proposed timing for transferring management responsibilities, ownership and control?

## Assessing your successor's skill set

An assessment of the current business and operational skill levels of whoever takes charge of your company, compared to what will be required in the role post-transition, will help you identify areas for development in advance of the succession.

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Preparing the next generation to take over your business is not straightforward

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### Balancing management, ownership and family

While the management team of the business, its ownership structure and the family are closely intertwined, each must be considered within the context of the succession. For example, a succession plan for the business should include all relevant stakeholders, such as the current shareholders, the successor(s) and key employees who are crucial to the operation of the business, even if these employees will not become shareholders post-transition. You also need to garner the support of key employees to avoid any discontent during the transition process and ensure there is a strong support team in place, if needed. From an ownership perspective, current and future shareholders should be included in this process. And, to alleviate potential family conflicts, your estate plan should include provisions for children who won't be shareholders or engaged in the business going forward, so they are treated fairly. Communicating in advance will help ensure that everyone's perspective is known and understood.

### Transitioning control

During the transition process, you may experience a great deal of change. Addressing family dynamics will be easier to manage when you have a plan that clearly specifies key milestones, and the roles and responsibilities of you and your successor(s) throughout the transition period. Ideally, the transfer of labor will begin slowly, when your children are young adults, and evolve over time into the eventual transfer of management responsibilities. The transfer of business ownership is the final step, which could be viewed as a formality after the transfer of management responsibilities is complete.

Business owners should be aware that they may need some time to accept the idea of transitioning their responsibilities and ownership to the next generation. To avoid conflicts and ensure capacity of your successor(s), transitioning out of your responsibilities progressively is key to reduce risk and support

business continuity. Think about planning for your retirement from the business by identifying new activities, hobbies or potential philanthropic endeavors that will provide you with a rewarding and enjoyable retirement, as well as helping you decide how much – if at all – you want to continue playing a role in the business.

### Seek professional advice

As the current business owner, you must teach the next generation of owners and managers about your business, strategies, goals and family values. While this responsibility may seem straightforward, the process can be quite challenging in practice. Seeking the support of a professional who specializes in family enterprise transitions can help you through this process to ensure that you achieve your personal and business objectives.

### Conclusion

Preparing the next generation to take over your business is not a straightforward or simple task and beginning the planning process as early as possible is the key to a smooth and successful transition. Speak with your BMO financial professional if you would like to be referred to a BMO business advisory and succession planning professional to discuss your transition plan.

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# What if the kids don't want the family business?

When it comes to a family business, a common exit strategy for business owners is to pass the business on to the next generation. However, recent findings in the United States by professional services firm PwC suggest that passing the business on to family members is no longer the norm. According to a PwC survey of family business owners who want to exit their business within the next five years, only 41% want to keep it in the family, 30% want the business to be owned but not run by the next generation and 11% plan to look for buyers outside the family. In addition, adult kids often have career plans outside of the family business. All these factors contribute to the possibility that a business may not remain within the family.

**Considering this shifting landscape, it is important for family business owners to have a clear transition strategy. There are a few things that should be kept in mind to make this process easier.**



## Communicate early

When it comes to planning a transition strategy, early communication is key. Communicate clearly with family members at an early stage to kick-start the conversation around the family business. For kids, this may mean beginning the conversation before they enter post-secondary school. In addition, make sure to check in with your children often for updates on their shifting interests.



## Have a plan B

If the younger generation is not interested in taking over the business, consider asking if they are willing to own it if somebody else will run it. This option brings in outside leadership and keeps ownership within the family. If the answer to this option is no, it may be best to consider an external buyer; this often means a friendly competitor or a loyal employee.



## Allow enough time

Ideally, allow a buffer of up to five years for the transition period. This will provide enough time to complete and implement a thorough transition plan. According to the PwC survey, less than a quarter (23%) of family business owners currently have a formal succession plan in place. Significantly, almost half (44%) of the owners surveyed believe succession planning will be a major challenge for them. Starting earlier can help mitigate this challenge.



### Get a professional valuation

One of the first steps in creating a transition strategy is to get a professional valuation of the business, whether the business owner decides to sell or keep the business within the family. Knowing the fair market value of the business will allow business owners to plan and negotiate the exit decision, and to plan for retirement. When it comes to estate planning, the value of the business is also an important factor in the division of children's inheritances.

If you are beginning to think about the development of a plan for eventual exit from your family business, contact your BMO business advisor for advice on the transition of your business.

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