

Business Succession Planning

Preparing for the Next Generation to Take Over the Family Business

As a business owner, you've worked hard to build a successful business, and may envision your children eventually 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 when planning a transition to the next generation.

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. Doing so 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:

- 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 child(ren) have part ownership or full ownership of the business? Consider whether or not you want to maintain certain growth shares in the company initially (if applicable), and be sure to speak with a tax professional to understand the full implications.
- If any of your children will not be involved in the business, how will the transition impact them, and your estate planning?
- What is the proposed timing for transferring management responsibilities, ownership and control?

Assessing the successor's skill set

An assessment of the successor(s) current business and operational skill levels, compared to what will be required in the role post-transition, will help you identify areas for development in advance of the succession. **Appendix A** provides a framework for documenting this information to help prepare a development plan for the successor, and how it will be executed.

Balancing management, ownership, and family

Because the management team of the business, its ownership structure, and the family are closely intertwined, each must be considered within the context of business transition planning. For example, a succession plan for the business should include all relevant stakeholders, such as the current shareholders-operators, 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 so that children who won't be engaged in the business going forward, or will be future shareholders, 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 labour 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 and become comfortable with the idea of transitioning their responsibilities and ownership to the next generation. To avoid conflicts, consider transitioning out of your responsibilities progressively. Think about planning for your retirement from the business by identifying new activities, hobbies or potential philanthropic endeavours that will provide you with a rewarding and enjoyable retirement, as well as confirming how much – if any – role you want to continue playing in the business.

Seek professional advice

As the current business owner, you must teach the next generation of owners/managers about your business, strategies, goals and family values. While this responsibility may seem straightforward, the reality is that this 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 business and family 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 key to facilitating a smooth and successful transition.

For more information, please speak with your BMO financial professional.



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Appendix A – Successor Skill Set Assessment

Use this worksheet to document your chosen business successor’s current skill set, and what skills will be required at the time of the transition. Completing this inventory will assist in preparing a development plan to address any deficiencies prior to the transition.

Business Skills Required at Transition Date	(A) Successor’s Current Skill (1 – 10)	(B) Required Skill Ranking at (1 – 10)	(B) – (A) Gap to be Filled by Successor
Managing people			
Communication skills			
Team building			
Time management			
Negotiation skills			
Personnel management			
Marketing / selling skills			
Analytical skills			
Planning skills			
Financial skills			
Networking skills			
Other			
Other			
Other			