Planning the Transition Phase between generations – Part 1 of 2

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For wealth transition, or the *transition phase*, the family business often represents the primary basis of a family's overall wealth. The business generates the funds that financially support two or three generations concurrently. The business is a source of tremendous pride, with all family members feeling a deep emotional attachment to it. They view it as a vital extension of themselves.

The time comes when an owner begins to think about retiring, or is unable to continue managing the business for some other reason. At that point, it's only natural that their first choice will be to look at another family member(s) to take over the ownership and leadership roles. While this plan to transfer ownership and leadership from one family member to another is certainly possible, it is not as simple as it first may seem. The transition requires careful planning to ensure it happens smoothly.

Unfortunately, the majority of business ownership transfers are *not* well planned. More than half of all businesses transferred to the second generation fail in the first three years! Further, less than one out of five of those second-generation successors will successfully transition the business to the third generation. These transition failures can mean the difference between wealth and poverty for future generations.

In addition to dealing with family-member succession, it is also important to consider the impact of ownership transfer on non-family members actively involved in the management of the business. Every outgoing owner has been the leader of the business for some time. They have usually developed personal relationships with key personnel. These relationships need to be taken into account. An abrupt change of ownership could irreparably damage these important linkages – and threaten the continuation and roles of those key individuals in the family business.

Finally, there are numerous other issues related to a transfer of ownership, from legal and taxation issues to the fundamental need to transfer knowledge about running the business. These issues will all be easier to deal with if the transition happens in an orderly way, and over a period of time rather than at one point in time.

To provide the best opportunity to successfully transition the business, the owner and their family need to recognize the importance of dealing with the transition as a *process* – as opposed to a transactional event that needs to be executed.

Setting the transition date well ahead of time

To begin the process, you'll need to set a date for the transfer of ownership. This is a "working" date and need not be absolute. It functions very usefully as the date that transfer plans are made and structured around.

The date could be a milestone, such as the owner's 65^{th} birthday, or an anniversary, such as the owner's 40^{th} year at the helm of the business. The important thing in setting the transition date is to ensure it allows a period of years rather than months for the transfer to ultimately take place.

Selecting your successor

In selecting your successor, apply similar principles as if you were choosing that person from a group of non-family applicants. Too often the unique dynamics of a family result in the wrong person being chosen to succeed an outgoing owner – leading to the eventual demise of the family business.

It is vital for owners to be honest when analyzing the strengths and weaknesses of family members as potential successors. You need to separate issues of family loyalties and emotional attachments from the selection process. Then you can base the choice on the family member's business acumen and management abilities.

Here are some of the questions you'll likely need to resolve:

- How committed is this person to the business?
- Do they have the management skills required to run the business?
- Is their business experience sufficient to lead the enterprise?
- Will they be able to do more than just administer the business; can they develop and grow it?
- Are they really the best person for the job – or should you consider hiring someone outside the family to lead and manage the family business for the family ownership group?

Carefully, thoughtfully, you choose your successor. Now you need to prepare them for the important role they will soon assume. In Part Two of "Planning the Transition Phase between generations," we'll look at addressing your successor's business skills and business acumen – and what to do when they have areas of knowledge and/or experience that need enhancing. We'll also discuss, for your consideration, the idea of setting up a family board for the transition. Other vital topics we'll cover: funding your retirement through realization of value from the business, and taxation and estate planning issues. Don't miss any of this, coming up in Part Two.

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