

## BUSINESS TRANSITION

# The Good, The Bad and The Ugly

These are three stories we frequently hear about family business succession. Can you guess which one we hear the most?

## The Good

The Joyeux Family has invested a lot of time, effort and attention in the orderly transition of their business from one generation to the other. The founders are enjoying a very happy sojourn away from the family business, living off their dividends. The successors have stimulated growth while continuing the founders' momentum. Everything is booming: the business, the family and the individuals within the family.



## The Bad

Pierre Malcontent founded his family business over 50 years ago, driving it from a simple home-based business to a nationally respected manufacturer. Pierre had his fingers in everything. His creative touch drove sales while his manufacturing intuition provided valuable solutions to clients' needs. He always intended to pass on the business to his children, but never quite got around to the details. Unfortunately Pierre passed away last Thursday and the three children are caught in a dilemma, not quite ready to take over.

## The Ugly

John Strong has been a great buddy of Pierre's. He and his wife Mary just love their business. Years ago they asked the children to take over so they could enjoy their retirement. After all, they didn't want to end up like Pierre. They still hold the bulk of the common shares and return every two weeks from their vacation hideaway. They love to attend the board meetings, giving their input on how the business ought to be run, then take off on their next vacation destination.

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If you guessed 'The Bad' story, you would be right. It is the most common. Which story best reflects your business?

What is succession? How do we know when it has happened and what are the signs it has occurred successfully? It is much more than a transfer of ownership or promotion of someone to senior management. Business owners should dedicate time and proactive effort to the transition of things such as knowledge, wisdom, capability, confidence, relationships, family and business values, passion, purpose and professionalism. With all these factors in play, how does a family ensure a gradual, well structured succession plan?

Succession is a process rather than an event. It happens as 'control' and 'decision making authority' are transferred to a successor. The entire process is predicated on one significant factor: the founder or current leader has the desire and recognizes the need to move on. It also assumes they have confidence in an identified person to succeed them.

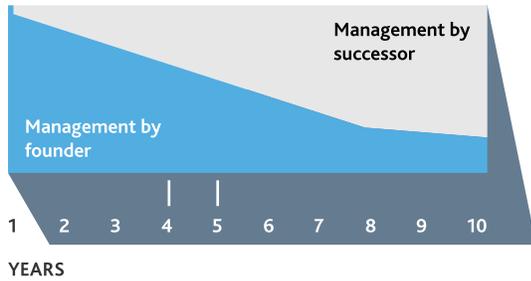
This can be done in many ways and the chosen methodology will have a profound influence on the ultimate sustainability of the enterprise.



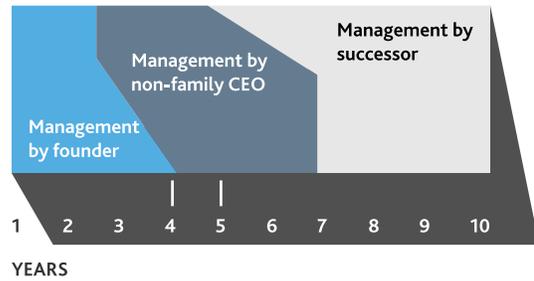
### The Good:

We believe that a measured, gradual and defined transition is the best means to transfer control and decision making. It is an effective way to have a successful and seamless transition. One option below allows for the inclusion of a non-family CEO. There are often cases where the founder is ready to exit but the next generation successor is not yet prepared or qualified to take over.

**Progressive**



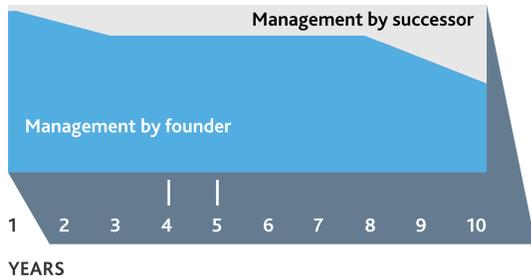
**Non-Family CEO**



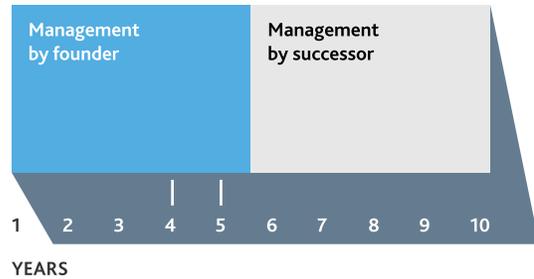
### The Bad:

Lengthy delays will both frustrate and undermine succession, with a possible risk of damaging the long term business success. The senior generation, unwilling to let go and unable to train and prepare the successor, hangs on until a time when it may be too late. The so called 'cold turkey' transition is most often a result of poor planning and the unexpected exit of the founder. Clearly no time is spent preparing either the founder, the successor, the family or the business for post-transition life.

**Lengthy Delay**



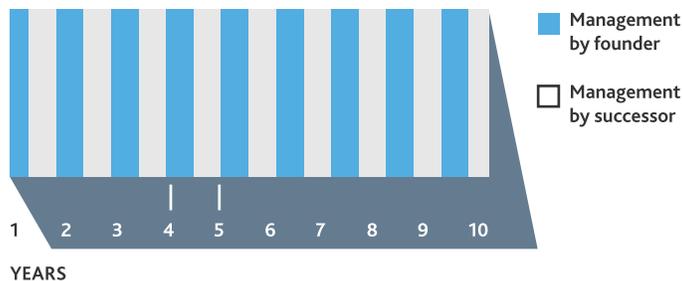
**Cold Turkey**



### The Ugly:

On again, off again is hard on the business and very damaging to family relationships. What's worse, when the business owner finally exits, whether by choice or not, the business, the successor(s) and the family have not been given the opportunity to learn or to thrive without the senior generation.

**On again, off again**



\* Graphics adapted from *The Family Business Advisor*

Proper succession is all about the orderly transfer of control and authority to a trusted successor, trained to make decisions about strategy, capital expenditures, operations, marketing and other factors critical to business operations.

Founders or senior family leaders should be proactively involved in directing and helping their next generation learn through planned training, delegation with responsibility and the sharing of their experience. It's not too late and you can start this process today.

### To learn more:



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### About BDO

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### About BDO's Business Transition Practice:

BDO's Business Transition professionals work with privately held and family-owned businesses, helping clients plan for the future. Our services include improving company governance processes, ensuring a fair entrance and exit process for shareholders, and developing a wealth plan that protects, preserves and grows existing assets. Throughout the entire process, we stay attuned to our clients' needs and respond quickly to issues and concerns as they arise.