

BUSINESS TRANSITION

Does it have to be *shirtsleeves to shirtsleeves*?

The world over, in virtually every culture, there are such truisms as “from rags to riches to rags”, “wealth doesn’t pass three generations”, or “from the barn stalls to the stars back to barn stalls!” If you head up a family enterprise, you are likely all too aware of the statistics around the survival rates of those wanting continuity and prosperity through the next generation. Some 80% of all businesses in Canada are privately owned. Less than 1/3 make it through the second generation, 1 in 10 make it through the third and a mere 3% to the fourth generation of owners.

While you contemplate the future of privately owned and family controlled enterprises in Canada just like your own, you may ask yourself, “Why do so many family enterprises fail to plan effectively for business succession, transition and continuity?” Read on, as you may well recognize someone you know.



1. **I have to do it all.** Business owners have strong personalities. They find it difficult to give up control or even to delegate key responsibilities. The business owner may be performing several important business functions that could be delegated. In our experience, the owner is just too busy and planning for the future is relegated to the back burner to sit and simmer. An effective succession plan will allow others to gradually assume responsibility and to become future leaders. Delegating such important roles and tasks may feel threatening to the business owner, making it difficult to hire, coach and mentor successors. These entrepreneurs are both arsonist and fireman!
2. **I don't like changes I can't control.** Change in an owner's leadership role may impact the owner's perceived stature in the community and the organization as well as with customers, suppliers and other stakeholders. Change is often resisted because the owner will not accept doing anything differently. The owner's identity and that of the business are one and the same. The result is inertia.
3. **I am invincible! Really, I am.** Business owners often consider themselves immortal and view discussions regarding succession, transition and retirement as premature regardless of their age and the ages of the rising generation. The reality is that you are not invincible.
4. **My spouse and I don't want a lesser lifestyle.** We've worked hard and long to earn our perks. Private company owners often reinvest profits in their business. Much of their net worth and family income is directly tied to the business. The owner is dependent on their operating company to maintain lifestyle. This dependency can put that very livelihood and that of their family at risk.
5. **I avoid and delay because I don't want any fighting.** Owners are reluctant to make difficult decisions regarding the selection of capable future leaders. Grooming and choosing successors may create conflict. So, the owner avoids the decision altogether rather than taking on the responsibility to ensure a thriving future. This avoidance often has the unintended consequence of causing one or more family members or key employees to leave the business. Sadly the ones who leave may well be most qualified to lead the business into the future.

- 6. I need to treat all my children equally.** The concept of dividing one's assets equally among children often conflicts with the idea of distributing assets fairly. It may feel like the right thing to do and may also be what the children are expecting. But such an approach seldom provides an ownership structure that allows the business to prosper. The business may fail, and the company as well as the family's livelihood will be at risk.

Each of these profiles present very real challenges for business families. Owners who are reluctant to address succession, inheritance and estate issues may become the unwitting obstacle to the preservation and future growth of the social, intellectual, human and financial capital they worked so hard to create and nurture. The result is broken communication, rivalry, unmanaged conflict, lost wealth and so much more. Be aware of your key issues. Ask yourself:

- Is the status quo acceptable?
- What is my vision of the future? Does my family share my vision?
- How am I doing?
- Is there a gap?
- What is that gap costing me, our business and our family?

And know this: fear and uncertainty cause procrastination and inertia.

There is help if you truly want to create choices and have impact over the future of your family enterprise. Trusted professional advisors will work with you to create an integrated plan and build the skills that will greatly increase the likelihood your family enterprise not only survives, but thrives through the next generation.

To learn more:



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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.