

# Transitioning Your Family Business

## A Succession Checklist



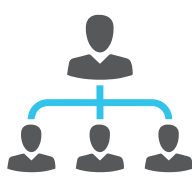
**70%**

of family businesses **do not** survive transition to the second generation.



### Start Early.

Don't wait until you are ready to retire, since your planning should be in place in case there is an unexpected death or disability.



### Decide

whether the business should continue as family-owned entity. A business won't succeed if the leader doesn't have passion for the company. Ask your children if they want to work in the business.

Family-Owned

Outside Sale

### Ensure

the next generation is committed to the business and not staying for the wrong reasons. Don't be afraid to consider outside sale.



Determine whether your family can competently cope with the various issues and decisions which will have to be made (i.e. aging, death, inheritance, competencies of the next generation). You must be very honest in assessing whether your children are capable of running the business. Do they have the competencies that are required to ensure the success of the business?



Business leaders must agree to manage the process and the transition of leadership to the next generation, including when they will step down. The leader should progressively reduce their involvement, and be able to 'let go'. The leader needs outside interests, but may continue on as a 'goodwill ambassador' for the company.



Establish a series of family meetings (i.e. a family council) which all family members, including spouses, will participate. Ensure they all reach consensus on key issues (i.e. who successor will be and timing of the transition). Is the family willing and able to talk openly and honestly?



Agree on who the successor will be and other key management positions and develop a plan including: identify skills required for each key position; evaluating potential candidates objectively (i.e. with the Birkman test of key attributes); and preparing an organizational chart (present, during transition and after transition).



Successors must earn respect amongst family members, employees, customers, bankers, etc. Ensure successors are introduced on a timely basis to reduce any uncertainty about the future of the business. Bankers often state that the biggest risk in a family-owned business is whether there is a succession plan and whether the successors are capable of running the business.



Communicate. It is important for the next generation to understand the decisions made, for instance, why non-active family members may not be owners in family company. In order to minimize sibling rivalry, you want to ensure all children feel they are treated fairly, since you cannot always treat all children equally.



Ensure that all family members understand the distinction between ownership and management with respect to their rights and obligations. Determine who will be allowed to own shares, and have voting control. For instance, should children who are not active in the business be allowed to own shares?

## WHAT'S YOUR PRIORITY: Family or Business First?

Do whatever avoids conflict with the family.

Pay family members equally and higher than market.

Avoid family reporting relationships through informality.

Decision making done by family.

Accountability of family to itself.

Give family members the right to employment.

Base promotions and titles on family members.

Value family employment above outside experience.



Do what works for the business and manage the consequences.

Pay according to performance and responsibility.

Family members report to other family members, where necessary.

Decision making shared with non-family. Non-family hired where family doesn't have competencies.

Family reports to an outside Board of Directors/Advisory Board.

Hire staff on the basis of skills and expertise.

Value talent and experience to grow the business.

