Business Succession:

How to Keep the Family Business In the Family

By Randy Perram

Family-owned businesses employ 4.5 million Canadians, and account for more than 45 per cent of Canada's Gross Domestic Product, according to estimates from the Canadian Association of Family Enterprise. Yet only about 30 per cent of family businesses—no matter how successful —continue into the second generation. And just a scant 10 per cent make it to the third.

Why such a high level of attrition? Two significant roadblocks lie in the minefield of tax law and in the often-complicated dynamics of family relationships. Succession planning is critical for owners and their families to overcome these obstacles.

The key to accomplishing a successful transfer depends on the recruitment of skilled outside advisors, in particular lawyers, accountants, bankers, investment specialists and estate planners. This will become even more important with the general aging of the Canadian population. The first baby boomers are now turning 50, meaning that more family businesses will be passed on during the next two decades than ever before.

Think ahead
Long-term planning is the usual hallmark of successfully passing a family business to the next generation. There are two key areas that need to be considered:

1. The owner's goals
For any succession plan to work, the owner has to make some fundamental decisions about his or her future role in the company. For instance, the owner must decide whether to retire completely,

Randy Perram
Investment Advisor

www.randyperram.com
Perram Wealth Management

RBC Dominion Securities
2400 Oxford Tower
10235 101 Street
Edmonton, AB.
T5J 2K8

"The key to accomplishing a successful transfer depends on the recruitment of skilled outside advisors, in particular lawyers, accountants, bankers, investment specialists and estate planners."

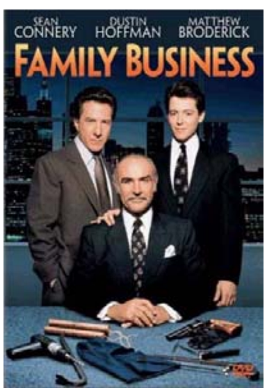
---

continue on a part-time basis, or maintain active control for as long as possible. If the decision is to retire, a timetable has to be drawn up and a strategy developed for passing on managerial control.

" If the owner wants the business to remain in family hands, the focus shifts to those in the younger generation who might be considered as owners and managers of the enterprise"

Some owners feel strongly that the business should remain in family hands. Others are happy to extract the best possible price from the sale of the business and then distribute some or all of the proceeds to their beneficiaries. If the owner wants the business to remain in family hands, the focus shifts to those in the younger generation who might be considered as owners and managers of the enterprise.

2. The younger generation's capabilities
Often there are some family members who are more interested in carrying on the business than others. Sometimes these family members are already involved in the business and are capable of managing it. If not, consideration must be given to how long it will take the intended successor (or successors) to gain the necessary experience and confidence to take over the helm. It may be that, in the interim, outside managers are needed to keep the firm healthy until younger family members can assume appropriate responsibility. Assuming there are interested and experienced relatives waiting in line, the issue then turns to just how the business can be transferred.



Pay special attention to tax

The options in creating a business succession plan are many and varied. Developing an appropriate plan requires detailed input from those with expertise in tax law, property law, corporate law, family law, wills and trusts, valuations, and insurance. Tax planning needs to be dealt with carefully. The rules change frequently, and Ottawa has become more vigorous in trying to maximize taxation revenues. It is important to consult with a tax expert who will ensure all of the corporation's issues are dealt with in a tax-effective way upon death of an owner.

Five steps to succession success

Often the seeds for failure of a family business in the next generation are sown by those in charge today. Here are five tips to help you avoid the most common mistakes.

Protection

1. Involve younger family employees: refusing to consider new ways of looking at the business often discourages the development of successors.

2. Be open to suggestions: some owners refuse to discuss details of the business with anyone. If they can't solve a problem, it stays unsolved, perhaps seriously compromising the company's efficiency.

3. Consider non-family management: sometimes focusing on the career paths of children can limit the contributions of talented non-family members of the business.

4. Delegate responsibility: when the current owner insists on making all the decisions there is no real depth of management. By giving other employees responsibility now, you help to develop their management skills and give them a sense of ownership in the business.

5. Don't insist on equality: extending management opportunities, ownership, and control to all children regardless of competence or interest can harm the company. Fairness can be achieved through other means.

"Often the seeds for failure of a family business in the next generation are sown by those in charge today"