Are you a business owner looking to transition out of your family business? Retirement may be right around the corner, however there are many details you should consider before hanging it up. Philip Evenden provides eight keys for business owners looking for a smooth transition.

Family business is the lifeblood of the Canadian economy. There are over one million small- to medium-sized enterprises (SME) in the country—accounting for over 95% of employer businesses in Canada. Add to this, our population is growing older and the founders—who have worked hard to create wealth and success—are starting to think about retiring.

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So, what happens when they actually decide to retire and hand over the reins to the next generation? In a recent survey of Canadian business owners, although 38% plan to pass the business to their children, 45% of those same businesses have no formal transition plan in place. It's a challenging and complex process that owners are reluctant to take on.

The most successful generational transitions come about through careful and patient planning. Steps are taken to train the successors, who have a clear interest in the company and earn their participation through effort, not bloodline. Often, the next generation contribute their own capital and effort to the cause.

Although each situation has its own complexity and unique problems, there tend to be common areas of consideration that emerge through the planning process of a generational transfer. Here are eight keys to a smooth family business transition that will help as you move forward on the journey.

1. Documented Business and Transition Plan

Development and execution of a thorough plan is crucial to the success of passing the business to new management or ownership. Details of the plan should include the current status of the business, as well as where it wants to be in the future. Identifying future goals will illustrate needs in capital, technology and human resource requirements to meet those goals. Most business owners do not take the time to fully explore the road ahead, and cannot see the potential pitfalls along the way. The plan should be revisited on a regular basis, to see if any adjustments are necessary.

2. Definition of Expectations

Even though they are part of the family, the next generation should not come into the business with a sense of entitlement. Working in the family business is an opportunity; in order to avoid giving the rest of the employees the wrong perception, it's important to have clear definitions around employment, covering everything from benefits to job performance expectations.

3. Building a Solid Corporate Structure

A professional management system is the cornerstone of a successful organization. Selection of a board of directors needs to be given careful attention, as representation from outside the family on the board will often lead to better decisions. Having the founders involved in some capacity is beneficial, given their experience and vision. Drawing on the knowledge and experience of other trusted professionals can take the emotions out of the decision-making process.

4. Shareholder Obligation

Showing economic commitment to the company is important as the baton passes between generations. Some founders feel that they should give their children the shares of the company as a gift. Others expect the children entering the business to purchase their shares and take an active role in the ownership of the operation. A hybrid model featuring a combination of both can be a good compromise as the financial commitment of the second generation is evident as they contribute financially to the future and success of the venture.

5. Exit Strategy

A successful plan defines the condition of the founder's exit. All too often this step is missed or avoided, as it can be one of the most emotional pieces in a transition plan. It's in the best interest of the company for the founder to recognize that the longevity of the company rests not only on training the next generation to take control effectively, but to understand their role as they pass the leadership to their family. Whether they remain with the company in an advisory capacity or keep a position with specific duties, a clear outline of the founder's role after retirement will help the new leadership and the employees move forward with clarity and purpose.

6. Transfer of Responsibility

It's not enough to transition the business by simply naming the next generation as owners. One of the main reasons that the percentages of multi-generational family business drop from second to third generation is likely a lack of ensuring that the new generation is trained to lead the business. Once competent leadership is established, the timing is right for the final phase of transition to be activated. If needed, professional management can be hired until the family members are ready to take over complete control of the business.

7. Conflict Resolution

It is vital to minimize interpersonal conflicts from daily interactions within the business and develop strategies for the family to resolve differences. Although in the initial planning stages it may seem unimportant, conflicts can destroy not only the family relationships but have serious impact on the business. Transparent and effective communication, possibly with the help of a family business advisor, will smooth the road ahead.

8. Family Transition Documents

Along with the myriad of paperwork and documents required to ensure that the transition process moves smoothly, there are specific generational change documents that are part of a well-executed plan. They include a family pact, wills, and a power of attorney that effectively communicates all aspects of wealth distribution if a shareholder passes away, and a code of conduct with rules of behaviour for family members within the company.

Keeping these factors in mind as you begin the process of transitioning your business to family members, employees, or even third parties will be valuable and potentially spare the retiring business owner additional stress and transition implementation costs.

No matter where you are in your business life cycle, it's never too early or too late to being the planning process. You'll be prepared and feel confident to keep building your business knowing you have the safety-nets and fences in place to protect what you're working so hard to create; not only for the lifestyle you want today for you and your family, but also the confidence that you'll ultimately realize the wealth your business is creating.

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