

# Family business

## Succession and next generation



### Managing your legacy

Succession and integrating the next generation are among the toughest and most critical challenges facing a family business. Even the most well-intentioned, talented business owners can fail at succession if the family, ownership, and business systems have not been sufficiently prepared for the transition.

Too often, family business leaders adopt the approach of doing nothing and hoping the problem will solve itself. Rarely will this happen. Every decision, including no decision, has a consequence.

Family business succession comprises two processes: the management succession and the ownership succession. Through family communications, management processes, leadership succession strategies, and dispute resolution procedures, family businesses can arrive at integrated family members, assessed options, informed decision-making, and increased comfort levels.

### Creating a road map for success

Succession calls for the transition of both management and ownership. The two processes can take place simultaneously or can be done one step at a time. Here are some strategies you may want to consider as you prepare your family business for the future.

### Family communications

Involving family members in your considerations can help ensure that they are informed and feel comfortable making decisions about their individual and collective futures in the management and ownership of the business.

To help ensure the decision-making process supports the business and the family, we facilitate discussions with individual family members, key non-family management employees, and other stakeholders to obtain a holistic view of all aspects of the business.

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These discussions are used to determine:

- The wishes and aspirations of the lead entrepreneur as well as the business' active and non-active family members.
- The values, beliefs, and vision of the family.
- The family principles with respect to succession.
- The family business rules regarding integrating the next generation.

## Management processes

The future generation will ultimately decide whether the family business remains a legacy. They need to clearly understand what the family business can do for them and what the business expects from them.

To try to ensure the continuation of a family business, some form of family and ownership structure should be put into place. Many family businesses have developed family business rules, family constitutions, and family councils to address these issues.

The complexity of these structures will depend on what stage in their life cycle the family members and the business are at.

## Leadership succession strategies

Once a holistic view of the business is obtained, KPMG Advisers can work with the family business owner and/or business family to:

- Assess who the next leader should be.
- Develop a skills training program.
- Mentor the next generation.
- Communicate and roll out the succession plan.
- Develop a plan to fund the retirement.
- Outline the tax implications of the transition.

## The Hall family's lost legacy

Brothers Jerome and David Hall\* built a highly successful business from the ground up, working well together as chief executive officer (CEO) and chief operating officer (COO). Their sons, Zach and Martin, started working in the business full-time in their early twenties.

Jerome and David thought the boys would step into their father's shoes at the appropriate time. Unfortunately, they did not communicate this unspoken dream to Zach or Martin until Jerome became ill and David decided to step back from his role due to advancing age and failing health.

As it turned out, Zach and Martin couldn't work together and each of them saw himself as the future CEO. In the end, the business split up with a significant amount of complexity, cost, family heartache, and lost opportunity.

If the family had communicated and shared their expectations of potential successors well in advance of unforeseen illness, the business could still be thriving today.

*\*Actual family business members' names have been changed to protect confidentiality.*

**“When it comes to succession and integrating the next generation, our goal is to help you achieve long-term prosperity and family harmony.”**

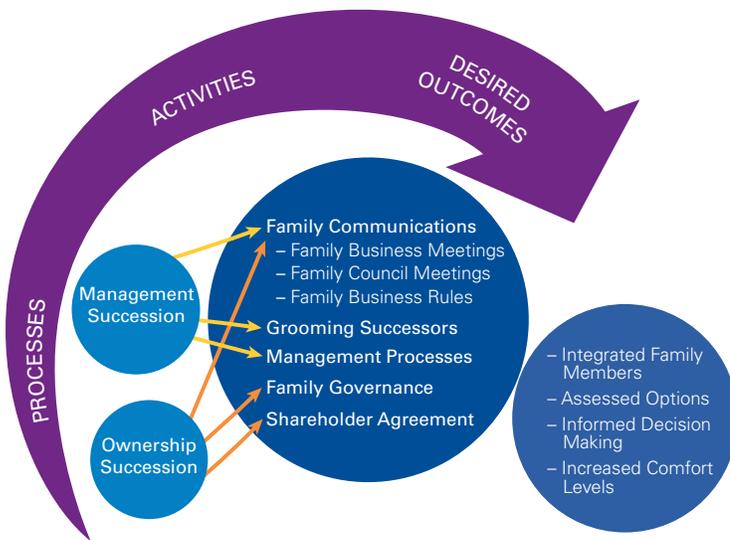
## Successful outcomes

Transition of any company can create a variety of emotions. Letting go is no easy task. Taking over the reins can also have its challenges. In reality, some conflict is inevitable. That's why it's also important to have legal documents in place – shareholder agreements, wills, power of attorney – to guide the resolution of disputes if things break down.

Having established the necessary communication channels and governance structures will allow family members to make informed decisions about their individual and collective roles in the management and ownership of the family business.

## We're here to help

KPMG Family Business Advisers can help you develop effective processes and activities that are designed to achieve long-term prosperity and family harmony.



KPMG Family Business Road Map

“KPMG Advisers can facilitate open communication between family members of all generations, whether they work in the business or not.”

“From the boardroom to the kitchen table, KPMG Family Business Advisers share leading practices to help business families implement creative and practical solutions to bring their business to the next level.”

## Contact us

Let's do this.

[enterprise@kpmg.ca](mailto:enterprise@kpmg.ca)

[kpmg.ca/enterprise](https://kpmg.ca/enterprise)

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